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NEWS SUMMARY

GENERAL

Europe nuclear pledge by U.S.

President Carter yesterday gave a firm undertaking that the U.S. would use the full force of its military might, including strategic nuclear weapons, to defend Western Europe against a Warsaw Pact attack.

Mr. Carter told the Washington NATO summit that the coupling of U.S. strategic forces to Europe was critical. It meant an attack on Europe would have the same consequences as an attack on the U.S. itself.

In Prague, Mr. Brezhnev, the Soviet President, accused the West of "cynical interference." Zaire and blamed NATO for a lack of progress on disarmament.

Mr. Carter, the former general in chief of government troops in Vietnam, was sentenced to death in the face of the

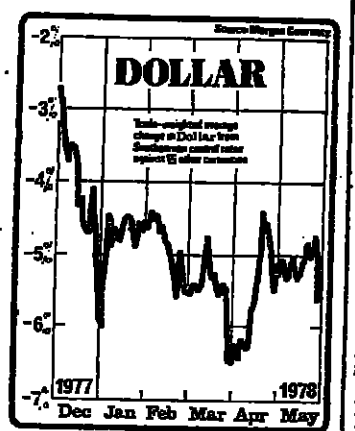
BUSINESS

Equities rise 6.3; dollar weaker

LEADING EQUITIES took a turn for the better in response to modest buying interest. The FT 30-Share Index closed at the day's best of 478.5, up 6.3. Gold Mines made further headway.

GILTS also progressed, the FT Government Securities Index rising 0.21 to 70.13.

U.S. DOLLAR continued to lose ground on concern about inflation and trade trends. Its trade weighted depreciation



widened to 5.62 per cent from 5.11 per cent on Monday. Sterling gained 1.45 cents to \$1.3330, although its trade-weighted index was unchanged at 61.4.

GOLD rose \$1.50 to \$184.375. The New York Comex June settlement price was \$184.30 (\$183.90).

WALL STREET was up 8.14 at \$42.34 near the close.

ITALY faces a real danger of sharp increase in inflation and new balance of payments difficulties, said Sir Paolo Baffi, Governor of the Bank of Italy. Page 2

FRENCH Cabinet has approved tax concessions to encourage investment in industry by small savers. Page 2

GKN abandons move on Sachs

GKN has conceded defeat in its attempt to raise its holding in Sachs of West Germany from just under 35 per cent to 75 per cent. It has dropped a bid to reverse a German Supreme Court decision blocking the move. Back Page

FORD is putting up car prices by an average of 3.5 per cent. Page 8, West German car output hit. Page 2

PLANS to speed the development of the UK petrochemicals industry based on North Sea oil and gas appear to be foundering in Government-industry discussions. Back Page

ROMANIA is again having talks with VFW-Fokker about possible production of the VFW 614 airliner. Page 4, Merger moves gain ahead. Page 35

GOVERNMENT has stepped in to help the financially troubled UK textile arm of Lorch, which last week issued redundancy notices to 400 employees. It will extend the interest-free period on a loan to the company. Lorch results, Page 30 and Lex

CO-OPERATIVE society retail executives are concerned about the trading position of some co-ops because of the high street price war. Two of the biggest co-ops, the London and Royal Arsenal, have reported losses. Page 5

DE BEERS Central Selling Organisation is cutting the surcharge on gemstones to 15 per cent, as speculative trading in diamonds wanes. Page 6, Cartier jewellery operations are to be brought together and a stock exchange quote sought. Page 35

MARLEY made pre-tax profit of \$7.54m (£6.78m) in the six months to April 30. Page 30 and Lex

STEEF PRICE CHANGES YESTERDAY

RISERS	
Chemical	662 + 7
Alumina	193 + 5
Ant Chemicals	186 + 5
own (A)	264 + 6
rr's Milling	47 + 4
stings	40 + 4
Iron	264 + 6
aldrive	74 + 19
eco Mining	102 + 6
th (C. E.)	273 + 10
wood Williams	110 + 6
own (A)	172 + 6
wood (A)	140 + 6
B. Holdings	72 + 21
Shoes	72 + 5
stand Point	283 + 6
Bank	123 + 7
G. Group	123 + 7

FALLS	
NatWest	273 + 7
Nova (Jersey)	43 + 6
Ocean Wilsons	190 + 6
Property Partnerships	110 + 6
Reed Int'l.	128 + 6
Sedgwick Forbes	396 + 13
Sharma Vere	116 + 6
Spirax-Sarco	159 + 11
Tube Inv.	352 + 8
Guthrie	322 + 7
East Dev.	172 + 14
Gold Fields of S. Africa	213 + 3
Mount Lyell	38 + 4
East Dev.	78 + 4
Rustenburg Plat.	94 + 4
Tara Exploration	211 + 3
Perry (H.)	204 - 5
Siebens (UK)	404 - 30
M.I.H. Hides	207 - 7
Utah Mining Aust.	370 - 40

Institute predicts more jobless, higher inflation

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

The outlook for the UK economy next year is gloomy with rises likely in both unemployment and the rate of price inflation, according to the latest quarterly review from the National Institute of Economic and Social Research published this morning.

The Institute, an independent economic research body, has been a long-standing advocate of expansionist policies.

But the latest review stresses the tight constraints on any further stimulus later this year, even if a co-ordinated programme is agreed at the mid-July economic summit in Bonn.

The pessimistic theme is that in spite of North Sea oil, the longer run "policy problems remain those of pay inflation and renewed stagnation of output in face of a still precarious balance of payments improvement."

The Institute suggests that a brief and mild recovery in economic activity this year will be led by private consumption and investment.

The pickup is, however, expected to tail off by the beginning of next year as the rate of price inflation catches up with pay rises, ending the rapid growth in living standards.

Economic growth, as measured by real Gross Domestic Product, is forecast to slacken from a rise of 3.7 per cent this year to

an increase of 0.8 per cent next year.

As a result, adult unemployment, expected to remain about its present level of 1.4m in Great Britain this year, is forecast to rise slowly to 1.5m by the end of next year.

The key difference with the Treasury view concerns inflation. In contrast with official hopes,

the Institute expects the rate of consumer price inflation to move up out to about 7.8 per cent in the next year round, the institute regards a rise of about 12 per cent as the most probable outcome.

It expects the rate of consumer price inflation to move up out to about 7.8 per cent in the next year round, the institute regards a rise of about 12 per cent as the most probable outcome.

While the projections in inflation and unemployment are broadly in

lin with those of most other no-Whitehall forecasters.

The institute says that the slowing of demand forecast for 1979 would seem to call for a further stimulus later this year.

But any such stimulus would reverse the current account surplus, while the risk of driving down the exchange rate further and exacerbating the rise in inflation.

A co-ordinated programme by all the major countries, says the institute, is needed. But even if collective action is agreed, the "UK could not go much further than it has done already without a significant devaluation," or risking further deterioration in the trade balance.

On the basis of present policies, the current account surplus this year is expected to be about £300m with a steady improvement after the big first quarter deficit.

However, this compares with a surplus of £1.5bn projected by the institute in its last review in early March.

Britain and France face legal action over oil

BY GUY DE JONQUIERES, COMMON MARKET CORRESPONDENT

THE European Commission is believed to be nearing a decision on whether to open highly controversial legal proceedings against Britain's North Sea oil policy and France's system of managing its national oil market on the grounds that they violate the Rome Treaty.

Much will depend, however, on whether the Commission is successful in its attempt to get the French Government to make voluntary changes in the pre-war "delegated monopoly" under which the French state regulates the French oil industry.

Commission officials are aware that to act against the UK, could invite a politically charged confrontation with Mr. Anthony Wedgwood Benn, the Energy Secretary, who has said that he considers North Sea policy to be exclusively a national responsibility.

They also think that if they were to act only against France, 26 with Mr. Andre Girard, the newly-appointed French Energy Minister, who has also been pressure to have parallel proceedings instituted against the UK.

In Britain's case, the Commission has been examining particularly closely the legality of

the requirement that all North Sea oil must be landed on U.K. territory unless a special waiver beyond the autumn.

There is concern in Brussels that if a decision were deferred for too long, the Commission itself might be brought to court by critics of the French system on charges of failing to enforce the treaties.

France has already been pressing the Commission to intensify its study of the British landing requirement. This was initiated about 18 months ago on the basis of a complaint by an unnamed oil company.

It alleged that the requirement conflicted with Articles 30 and 34 of the Treaty, which prohibit quantitative restrictions and other impediments to imports and exports of the EEC.

Critics of the policy claim that oil companies from other parts of the EEC are obliged to pay higher transport costs than if they were permitted to carry the oil to destinations of their choice.

The investigation into the interest relief granted against which two complaints have been made, centres on allegations that it distorts competition because it is offered only to British suppliers.

BRUSSELS, May 31

Petrol prices likely to rise shortly

By Ray Deffer, Energy Correspondent

OIL COMPANIES are to raise the price of petrol at many of their stations by between 1p and 2p a gallon over the next few weeks.

In a fresh attempt to end the forecast price-cutting war, major oil suppliers are expected to withdraw a large part of their dealer support aid which has helped retailers to cut several pence off the schedule price of each gallon.

The new move has been led by Esso Petroleum, one of the market leaders, which has written to many of its dealers informing them of the new policy.

Other big companies—among them British Petroleum and Shell—are almost certain to follow suit.

There is now speculation within the industry that before the end of the year companies might approach the Prime Minister for authority to raise the base price of petrol, presently an average of about 7p a gallon on four-star grades sold in urban areas.

Sterling

Companies are revising their dealer support system mainly because of their concern about the falling value of the pound against the dollar.

Since the beginning of the value of sterling has dropped by about 7 per cent.

As crude oil is traded in dollars it is estimated in the oil industry that a 2 cents drop in the value of the pound reduces the annual profit on petrol sold in the UK by about \$5.5m.

A further drop in the value of sterling could prompt a Price Commission application for a base price increase.

BP Oil, one of the top three petrol sellers in Britain, said yesterday that it was watching the marketing position closely.

"The return oil companies are getting from the market is minimal. Petrol is a bargain; it is being sold at an artificially low price."

In view of the need for an adequate return to meet investment objectives, the price of petrol has to go up."

Shell, which has about 20 per cent of the petrol market, said that over the last few weeks it had reduced its dealer support at some 300 to 400 outlets.

It is estimated that about 1,200 of Shell's 6,500 sites have continued on Back Page

U.S. jolted by 0.9% price rise

BY JUREK MARTIN, U.S. EDITOR WASHINGTON, May 31

THE U.S. received a sizeable, but not unexpected, jolt today with the announcement that consumer prices rose by 0.9 per cent last month.

This is the steepest increase since February last year and means that for the three months up to the end of April, the retail cost of living has gone up at an annual rate of 10 per cent.

The Carter Administration is painfully aware of the implications of a return to double-figure inflation.

In the last few days, Mr. Robert Strauss, the President's inflation czar, and Mr. Barry Bosworth, head of the Council of Wage and Price Stability, have stressed that strings were likely to get worse before getting better. Both said that the April and May figures would be particularly bad.

This is largely because of the soaring food costs.

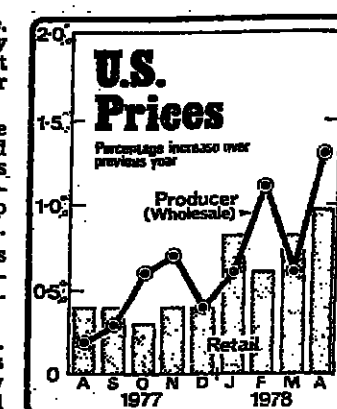
In April, the food index rose by 1.8 per cent compared with March. Grocery store prices went up by 2.4 per cent, beef prices by 8.6 per cent and fresh vegetables by 9.7 per cent.

In the three months ending in April, the food index has risen at an annual rate of over 18 per cent. This pace of increase is not expected to continue, but there is much more inflationary pressure in the economy than existed a couple of months ago.

The Agricultural Department has revised upwards its projection of the increase in consumer food prices this year.

It now foresees an 8.10 per cent annual rise. Two months ago it was forecasting a 6.8 per cent advance, while at the end of last year it anticipated a mere 4.6 per cent.

Mr. Strauss was far from content so far this year at a 10 per cent, in a newspaper interview cent plus annual rate.



today, about the administration's ability to get a grip on price rises.

Easing restriction on imported beef would be "the most positive thing I can think of," he said. This could harm the domestic beef industry, and would therefore be politically difficult to accomplish.

So far, the Administration has received some useful but still mainly symbolic commitments from some major companies to hold the line on executive pay and prices.

But last month's consumer price figures show that inflationary pressures in the economy are not confined to the food front and will therefore require wide ranging acts of persuasion if the voluntary programme is to work.

Housing costs, for example, rose by 0.9 per cent, with the cent annual rise. Two months ago it was forecasting a 6.8 per cent advance, while at the end of last year it anticipated a mere 4.6 per cent.

The housing index has gone up so far this year at a 10 per cent, in a newspaper interview cent plus annual rate.

Dollar crisis threat

BY MICHAEL BLANDEN

MR. HENRY KAUFMAN, a senior U.S. economist, said yesterday that the U.S. could face its worst dollar crisis since the second world war next year, or even sooner.

Speaking in Geneva as the dollar came under renewed pressure in the foreign exchange markets, Mr. Kaufman, senior partner in Salomon Brothers, said that reducing the rate of inflation was the key to arresting the decline of the dollar. But the chances of doing so were not very great.

He told a Conference Board meeting that the U.S. might have to introduce controls over the international flow of dollars.

In spite of the recent rally in exchange markets, the fundamentals surrounding its weakness had not changed.

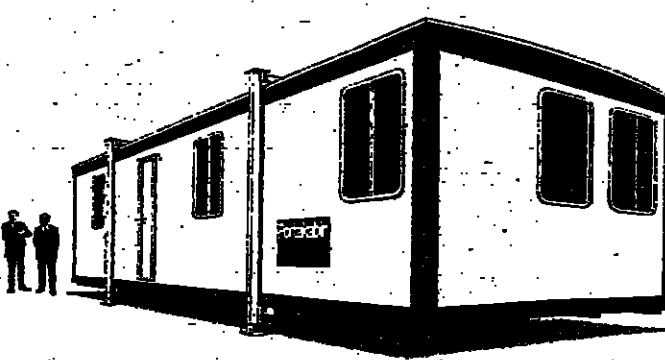
The dollar fell sharply in European exchange markets after an earlier decline in Tokyo on renewed concern over the outlook for the U.S. economy.

It ended in London at Y221.40 against the Japanese currency, compared with Y222.95 on the previous day, and fell against the Swiss franc from Sw.Frs. 1.9240 to Sw.Frs. 1.8930.

The pound rose by 1.45 cents to \$1.3330 and was showing further gains in later New York dealings.

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EUROPEAN NEWS

Bank of Italy head fears sharp increase in inflation

BY PAUL BETTS

ROME, May 31.

SIG. PAOLO BAFI, Governor of the Bank of Italy, said today that there was a danger of a sharp increase in inflation, and that the balance of payments difficulties in Italy.

Addressing the annual meeting of the central bank, he indicated that there could be no loosening of tight credit controls as long as the fundamental structural weaknesses of the Italian economy were not adequately solved.

Sig. Bafi implied that there was to be concrete indications of the country's readiness to take action to reduce public expenditure and to contain the

EEC and Comecon agree to exchange information

BY DAVID BUCHAN

BRUSSELS, May 31.

THE EEC has embarked on an irreversible development of its relations with Comecon, Herr Wilhelm Haferkamp, the Community's Commissioner for External Affairs, said today, after two days of talks in Moscow with Mr. N. Pavlov, Comecon's secretary, and other officials of the Eastern bloc organisation.

The talks produced almost no concrete results and Herr Haferkamp would give no estimate for the signing of an eventual co-operation agreement. He said the two bodies had agreed to hold two further rounds of talks in Brussels, at technical level in July and political discussions in October.

Herr Haferkamp placed some hope in the possibility that the Soviet Union might want to see an agreement reached with Brussels during its presidency of Comecon, which starts this July for one year. It was possible that it might use its predominant position within Comecon to make concessions.

Both sides have agreed that the first step should be exchanges of economic data, statistics, and environmental policies. The July and October talks will concentrate on achieving this. Herr Haferkamp stressed that the EEC also wanted to speed up its ties with individual Comecon States.

This is the crux of the drawn-out diplomatic two-step between the two organisations. The EEC only wants a formal agreement with Comecon that does not touch in any way the necessary first step towards nego-

tiating all the practical commercial issues one-by-one with Eastern bloc countries.

Comecon officials this week repeated their demand for a broad trade accord with Brussels, but Herr Haferkamp said today it was important that both sides had agreed to respect each other's practices, structure and policies. The Commission takes this as tacit Comecon acceptance of the EEC argument that the Eastern bloc is not equipped to talk about trade, having no common policy on customs, quotas or free movement of goods.

Herr Haferkamp said various East European countries were known to be interested in taking up the Community's offer, dating from 1974, to all State-trading countries for a framework trade agreement. So far only China has taken up this offer, having signed an agreement with Brussels this spring. But the Commissioner said recent sector agreements on steel and textiles with some East European countries had shown a desire to come to terms with Brussels.

"A permanent broadening of contacts is beginning to emerge" between the EEC and Comecon, Herr Haferkamp said. Asked whether issues of human rights could reverse this, Herr Haferkamp would only say that the Commission had publicly insisted on the full implementation of the Helsinki Agreement. EEC officials privately say that the climate for negotiations, if and when they begin in earnest, will inevitably be affected by political considerations of this kind.

Dutch chemicals outlook 'gloomy'

BY CHARLES BATCHELOR

AMSTERDAM, May 31.

PROSPECTS are gloomy for the Dutch chemicals industry over the next few years, according to Mr. Eppie Torst, chairman of the Dutch Chemical Industry Association (VNCI).

In his annual report Mr. Torst describes 1977 as the worst year since the Second World War, with the industry growing worldwide at only 3.5 per cent a year, compared with more than 10 per cent in the recent past, and says that excess capacity will be taken up only slowly.

The main problems are the high level of wage and energy costs in Holland, the high demands made on the industry to protect the environment and the volume of lowered imports from East European countries.

Mr. Torst called for a more balanced approach to environmental protection in Holland, saying that the considerable progress made in the field

in recent years means that the tempo could now be slowed.

The cost of environmental measures has risen so rapidly that they now form a substantial part of production costs, and the reduced level of profits makes it difficult to keep up the pace of recent improvements.

The disparity between energy prices in neighbouring countries and prices in Holland, where the price of gas is related to the price of imported oil, also puts the Dutch chemical industry at a competitive disadvantage.

Mr. Torst regards the long-term prospects for the industry as favourable, however, thanks to the increase in the world population, coupled with a rise in living standards in developing countries and the continued striving for improved comfort and health in the industrialised West. The scarcity of many natural products means that it

will always be necessary to produce synthetic materials.

Dutch chemical producers were able to maintain turnover at F120.7bn (\$8.1bn) with great difficulty in 1977. Chemicals is nevertheless the second largest industrial sector in Holland after the foodstuffs and tobacco processing industry.

Exports fell slightly to F117.88bn from F117.96bn due to the greater rise in costs compared with foreign competitors. Exports nevertheless accounted for 36 per cent of turnover and represented one-sixth of total Dutch exports.

A number of companies made losses in 1977, the first time this has happened in the post-war period. Investments rose to F12.3bn (\$1bn) in 1976, although this increase was the result of decisions taken in earlier years, the Association pointed out.

Bonn talks crucial for payments problems

By Robert Maunthorpe

PARIS, May 31.

PROSPECTS for an adjustment of the payments balance of the major Western industrial countries are almost entirely dependent on the adoption of a concerted growth strategy at the Western economic summit to be held in Bonn in mid-July.

This was one of the main conclusions of the high-level OECD meeting on balance of payments problems, which began yesterday on a blue-print for action which would set the industrialised world on a 4.5 per cent growth path by the middle of next year.

Though a substantial number of member States rejected the OECD Secretariat's widely-quantified stimulus which would be given to the domestic demand of each of the industrialised countries, there is still wide agreement that some kind of concerted growth policies are required.

US sources said today that the chances of the Bonn summit coming up with a more meaningful growth strategy, a co-ordination of economic policies than it once reached at the last summit meeting in London were "fair to favourable".

The general view of delegates was that countries like West Germany and Japan, which had the greatest need to provide the biggest stimulus, will wait until the summit setting takes place before giving anything away.

Meanwhile the balance of payments picture for 1978 is bleak, with growth through several of the leading member countries, such as the U.S., feeling that the OECD Secretariat is unduly pessimistic in its predictions.

The Secretariat is forecasting a current account deficit for the U.S. of \$24bn, some \$bn more than in 1977, while U.S. officials thought it was more likely to be in the region of \$18bn, roughly the same as last year, he effects the recent depreciation of the dollar negative during an initial period would begin to exert a beneficial influence on the balance of payments in the second half of this year.

The Secretariat was also extremely pessimistic about the balance of payments prospects for the two biggest surplus countries, Japan and West Germany. The 1978 Japanese current account surplus is expected to rise to at least \$15bn from \$11bn last year and West Germany's surplus by \$5bn from \$3.5bn in 1977. Switzerland's surplus is expected to be in the region of \$4.5bn, and that of the U.K. \$1.5bn, according to the Secretariat.

The Secretariat is seen to be adopting a more optimistic view than given by the latest private forecasts of Treasury officials.

On other aspects of the U.S. economy American sources said that because of the recent sharp rise in employment and high inflation rates, the U.S. Administration had revised downwards its target for the "desirable" rate of growth in 1978 and 1979.

Thus the U.S. was now aiming for a GNP increase of 4.5 per cent, instead of 4.5 per cent as initially projected.

Though the rise in the April and May consumer price index in the U.S. was particularly high, it was not seen to be a threat to the U.S. economy, which was expected to taper off substantially in subsequent months and, for the year as a whole, would probably be around 7 per cent.

Krupp Gulf office

Krupp has opened a Gulf head office in London, and is now fighting for every job they can hold. The province's low level of industrialisation has spared it the spectacular company failures which have led to the closure of many other areas. Apart from the agricultural industries, Friesland employs 14,000 in the electrical engineering and shipbuilding sectors.

Two important individual employers in Friesland are the electrical concern, Philips, and Douwe Egberts. Philips employs nearly 2,000 people making shavers and other household products at Drachten in the east of the province, and 650 in the Friesland plant. Douwe Egberts has a workforce of 1,600 in Joure blending and packaging and producing tobacco and instant coffee.

The industrial expansion that has been achieved has been partly due to Government assistance in improving communications, education, facilities and housing. Friesland, like other

FRENCH MOVE TO ENCOURAGE SMALL SAVERS

Tax incentive should benefit industry

BY DAVID CURRY

PARIS, May 31.

A PROGRAMME of substantial concessions to encourage investment by small savers in industry has been approved by the French Cabinet. Parliament is expected to vote the proposals in late June and they will be applied immediately.

The centrepiece of the programme is to allow households to deduct FFR 5,000 (\$850) a year from their taxable revenues for investment in shares. In addition they will be able to increase the investment by FFR 500 a year for each of the first two children and FFR 1,000 a year for subsequent children. The investment can be made in quoted or unquoted companies, but in the latter case the shares must be bought as part of a capital increase by the company.

The concessions will last until the end of 1981. M. René Monory, the Economics Minister, said today that the next four years covered the period when France would have to give priority to the financial health and competitiveness of its industry. A later Government might identify different priorities in the light of changing world circumstances.

However, the concession will last for 15 years for people now aged 50 so that they can build up a portfolio of shares in preparation for retirement. At the moment tax law in France permits investors to deduct from their taxable income the first FFR 3,000 a year they receive from shares or bonds in dividend-paying companies. From now on investors will have to choose between benefiting from the share purchase concession being introduced or the existing limit of share income.

The proposals also include changes to company fund-raising directly. Foremost is the creation of preference shares which will rank as priority for dividend but will not carry voting rights. This is to encourage smaller concerns to seek funds from the market without risking the loss of management control.

To encourage companies to raise new capital, dividends relating to newly-created shares can be deducted from the company's tax liability for seven years instead of the present five years. For preference shares the exoneration is raised to 10 years.

The Government is also making it possible for certain official loans to companies to be assimilated to the capital by subordinating them for all dividend purposes.

In one respect taxation is increased. Up to now holders of

substantial portfolios of such interest investments have been able to pay a straight 33 per cent of tax on this income, rather than having it added to their global revenues and subject to income tax. For all fixed interest holdings except bonds issued by certain semi-state institutions, this rate is now raised to 40 per cent.

The net cost of the operation is FR 1.1bn to FR 1.2bn and it is hoped that up to FR 5bn a year of new money will be invested in industry. M. Monory said the object was to reach new categories of investors and "recruit the French to their industry". The general policy of encouraging industrial investment was part of the overall strategy of bolstering the financial strength and respectability of industry—a strategy which included the ending of subsidies on industrial prices promised before the middle of October.

Saudis will back African move to counter Communist influence

BY DAVID WHITE

PARIS, May 31.

SAUDI ARABIA has expressed support for a joint initiative to counter Soviet and Cuban intervention in the continent.

Prince Saud, the Saudi Foreign Minister, said here at the end of a two-day official visit by King Khalid that Saudi Arabia shared the Arab position that it did not consider a price rise justified in the present market circumstances.

A new oil agreement with France, following a pact last year under which France buys 12m tonnes of oil direct from the Saudi Arabian Govern-

ment, did not come up for discussion.

Under their existing economic and technical agreement, France and Saudi Arabia were carrying out joint research into alternative energy sources and discussing co-operation on peaceful uses of nuclear technology were "reaching a stage of conclusion", the Minister said.

No firm deals were included during the talks, but the Minister said there was room to increase both the volume and extent of Franco-Saudi economic relations.

Shattering some lingering French hopes, he added that Saudi Arabia had not discussed France's planned new Mirage 4000 fighter aircraft with the Saudis, but the F15s that the U.S. had agreed to supply.

Schmidt hopeful on uranium deliveries

BY JONATHAN CARR

BONN, May 31.

CHANCELLOR Helmut Schmidt has reported making progress in talks with President Carter on the problem of U.S. deliveries of enriched uranium to the European Community.

Herr Schmidt told a West German newspaper interviewer in Washington that during his hour-long discussion yesterday with the President, very clear lines had emerged that accord could be reached on the nuclear issue.

He gave no details. But before

Herr Schmidt left for the U.S., officials here had stressed that the nuclear supply question would figure high on the agenda of his Washington talks.

According to the officials, Herr Schmidt planned to make clear that the EEC was ready to talk over with Washington the problems of uranium delivery arising from passage earlier this year of the U.S. Nuclear Non-proliferation Act.

But the Chancellor would also

recall the U.S. promise last year that it would not change its nuclear supply policies while international fuel cycle evaluation talks were in progress. These are expected to last more than another year.

Asked if West German-U.S. differences on economic policy had been ironed out, Herr Schmidt said the positions of both sides had become much closer. He forecast a success for the world economic summit conference in Bonn in July.

Malta plan targets 'achieved'

By Godfrey Grima

MALTA, May 31.

ALL ECONOMIC targets laid down by Malta's seven year development plan, which expires next March with the complete closure of British bases here, have been achieved.

This was claimed in Parliament by the island's Development Minister, Mr. Winston Abela, while putting forward a Bill providing for review of a number of basic targets set out in the original plan.

Mr. Abela told the House of Representatives that this supplement to the plan was made necessary by the worldwide economic upheavals of recent years. But it did not mean that the original objectives had not been met.

Gunman shoots W. German defence lawyer

WEST BERLIN, May 31.

A GUNMAN today shot and wounded one of the defence lawyers taking part in a major urban guerrilla trial here, police said. The counsel, Dietmar Hohla, was hit in the legs as he was about to get into his car in the West Berlin district of Wilhelmshof.

Hohla is the court-appointed lawyer of Ronald Fritzsche, one of six suspected guerrillas accused of the murder of West Berlin's chief judge, Guenther von Drenkmann, in 1974, and the kidnapping of the city's conservative party leader, Peter Lorenz, in 1975.

Mr. Hohla was taken to hospital but released after treatment. The gunman escaped in a yellow saloon car without registration plates which was found soon afterwards, Renter

New meeting on Aegean dispute

By Our Foreign Staff

THE SECRETARIES GENERAL of the Greek and Turkish Foreign Ministries, Mr. Byron Theodoropoulos and Mr. Sukru Elekoglu, are to meet in Ankara on July 4 to discuss the Aegean dispute and progress towards resolving problems over the Aegean.

This was announced in a brief communiqué issued after the meeting on Monday night between the Greek and Turkish Prime Ministers, Mr. Constantine Karamanlis and Mr. Bulent Ecevit. The two met in Athens in March but the follow-up meeting agreed between the Secretaries General was postponed in April at Greece's request. Public opinion in Greece was incensed by President Jimmy Carter's request to Congress that it lift the arms embargo on Turkey.

Car exports during the first four months of 1978 increased by 2 per cent to 694,100, against the 680,419 units shipped during the comparable period of last year. Commercial vehicle exports during the same period from 65,226 units to 50,900 units.

On the bright side, in spite of the fact that the industry believes that its boom peaked last autumn, domestic demand remains lively. The VDA reports. Car and estate vehicle orders during the first four months were still running slightly above the level for the comparable period of 1977. At the same time demand for commercial vehicles is, to degree, offsetting the decline overseas interest.

Barcelona metal strike averted by pay deal

By David Gardner

BARCELONA, May 31.

A 48-HOUR strike due to have started tomorrow in Barcelona's metal industry has been called off after acceptance of a management offer by the two principal unions involved, the Socialist General Workers' Union and the Communist-dominated Workers' Commissions.

The sting has thus been drawn from the most important series of labour disputes in Spain since the elections a year ago. At one point more than 750,000 strikers were involved in Barcelona province.

The agreement comes after a warning from the Ministry of Labour that continuing deadlock would lead to obligatory judicial arbitration, a survival from labour legislation which the unions have attacked as an infringement of free collective bargaining. Minimum wages in the industry will be raised to Pta 29,000 a month with a further Pta 800 a month from October. The unions had demanded Pta 33,000.

The recent strikes, centring on the textile, construction and metal industries has divided employers' federations. The employers' federation in the key Basque Labour area, had threatened a 24-hour lockout for each day lost through strikes, but the move was strongly criticised by Catalan employers' associations.

Portuguese coup leader held by military police

BY JIMMY BURNS

LISBON, May 31.

AIR FORCE Major Jose Ignacio de Costa, one of the main leaders of an attempted left-wing coup here on November 25, 1975, was arrested on arrival at Lisbon airport this morning, and taken by military police to the top security prison of Caxias. He had fled the country after the coup attempt and lived in Luanda until his recent expulsion from Angola.

Major Costa Martinez' arrest represents the latest in a series of steps taken by Portugal's high command to "depoliticise" the Portuguese armed forces.

The gradual separation of the military from politics (no easy task given the fact that the Portuguese armed forces have been involved in attempted coups and counter-coups for more than two centuries) has involved a gradual purging during the past two and a half years of many of the young officers belonging to the Armed Forces Movement which, backed by civilian forces, succeeded in overthrowing nearly half a century of dictatorship.

Significantly the military high command is working on a Law of National Defence which will constitute a formal constitutional definition of the Portuguese armed forces as the guarantors of the country's transition towards Socialism.

Critics on the Left here regard the "depoliticisation" of the armed forces as a step weighted in favour of the Right. They

point as a further example to this the dismissal last month of Major Vasco Lourenço from his post as Governor of the Lisbon Military Region.

Perhaps a more balanced view on the current changes with the military is that it forces, outside of a political text, is necessary if Portugal is to become both a capable and trusted member of NATO.

This view was reflected in speech on Tuesday by General Ramalho Eanes, the President of Portugal and chief of the armed forces, at the NATO spring summit in Washington. "Portugal was not considered a strategic area that is essential for NATO defence, given its potential control of the Atlantic routes to the entry into the Mediterranean," he said.

Also reflected in his speech was the feeling that a Portuguese high command that support from NATO is not as forthcoming as it might be. Keeping politics out of the armed forces, he said, was a long time to come.

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AMERICAN NEWS

Chase admits asking Peru to protect copper mine earnings

BY DAVID LASCHLES

NEW YORK, May 31.

CHASE MANHATTAN BANK confirmed here today that it sent a telex message to Peru earlier this month requesting a government decree to guarantee that earnings from the privately owned Cayash copper mine would continue to be paid to the creditors and shareholders of the Southern Peru Copper Corporation, which operates the mine, not diverted to pay the country's debts.

But it described the message as part of a negotiating stance on talks about a further \$83.4m loan for Cuzco, and stressed that there was no link between this loan and finance which the Peruvian Government is seeking to ease its balance of payments problems.

A delegation, headed by the Peruvian Central Bank President, Sr. Manuel Moreyra, arrived in New York last week to seek debt rescheduling from its U.S. and other creditors.

Chase also said it had sent the message as agent for the group of 25 banks in the Cuzco loan consortium, but added that this did not mean it was speaking on the consortium's behalf.

Cuzco, which lies some 500 miles south-east of Lima, is wholly owned by a group of U.S. companies, headed by Asarco, and is largely financed by U.S. commercial banks and the Eximbank.

The project has already absorbed \$220m in finance, and requires the extra \$83.4m to complete the mining complex and purchase materials. Earnings from the project have, far more than a year, been sent via the Peruvian Central Bank to Chase Manhattan in New York for distribution to creditors and shareholders.

However, U.S. banks fear that the heavy debt of the Peruvian public sector estimated to total \$5.5bn might provoke the government to divert these earnings to its own account, or use them

Banks to sell new housing certificates

By John Wyles

NEW YORK, May 31.

U.S. BANKS and savings institutions will be free tomorrow to start selling controversial, six-month savings certificates which are designed to increase funds available for house mortgages. But some economists fear that they could further push up short-term interest rates.

The new certificates were conceived by the federal banking regulators as a means of sheltering the housing sector of the economy from the impact of steadily tightening credit, which has pushed short-term interest rates to a three-year high. Flows of money into savings and loan associations, which provide mortgages, and mutual savings banks are 39 per cent lower this year than last, with the result that mortgage rates are rising and the rate of house building is threatened.

With their interest rates on short-term savings pegged at 5-6 per cent, savings associations have been unable to compete with money market instruments such as Treasury bills, and federal officials calculate that the new certificates could attract up to \$6bn in new funds.

Commercial banks will be able to sell the new instruments in minimum denominations of \$10,000 at the same rate as six-month Treasury bills, which were auctioned last week at 7.14 per cent, while savings institutions can offer them at a rate 1 per cent higher. However, some mortgage associations fear a movement of funds out of existing accounts and a corresponding increase in the cost of their money.

This, in turn, could push mortgage rates up from the level in April of 9 1/2 per cent. At the same time some economists see broader implications in that this attempt to protect the housing sector from the effects of higher short-term interest rates could make the economy less sensitive to tighter credit conditions and, as a result, force short-term rates to levels higher than would otherwise be the case.

U.S. COMPANY NEWS

BP and Caltex in Singapore venture; Jos. Schlitz lay-offs; U.S. Steel inquiry; Massey-Ferguson second quarter.

CALIFORNIA TAX REFORM

From mirage to mandate

BY MAURICE IRVINE IN SANTA MONICA, CALIFORNIA

MR. HOWARD JARVIS, a portly, 75-year-old retired manufacturer and failed politician who vaguely resembles the late W. C. Fields, seems an unlikely candidate for assassination. But anonymous callers have warned him several times recently that he will be shot if Proposition 13—the draconian tax reform measure of which he is co-sponsor—passes in California's referendum on June 6.

Mr. Jarvis shrugs. "Listen," he says "it isn't just the nuts who are out to destroy me. It's the whole liberal establishment. That's how I know I'm doing something right."

Proposition 13 is a citizens' initiative. Mr. Jarvis and his ally, Mr. Paul Gann, a 65-year-old retired estate agent, had little trouble collecting some 1.3m signatures for petitions placing the matter on the ballot. There is a growing legion of tax rebels in California, and their revolt is only one among a dozen gathering momentum in the U.S.

Proposition 13, also known as Jarvis-Gann, would roll back property taxes to 1 per cent of 1975-76 assessed value. In doing so, it would deny \$7bn in annual tax revenue to local governments and schools. The measure offers no suggestions as to how that loss might be made up.

How can the gap be bridged? The legislature threatens to increase sales, income, and other taxes by 60 per cent or more. Bills to this effect are already in the works. University chancellors and Nobel Prize winners debate that if the proposition passes and the State will not act as a sugar-daddy to local government. But in fact he have

little alternative but to support such bills, and he admits that Proposition 13 would force him to introduce drastic economies at every level of government.

California's state and local governments collect some \$40bn in taxes annually. Proposition 13 would cut property tax revenues in the coming fiscal year from an estimated \$12bn to \$6bn. But local government depends heavily on property taxes—which now stand at about 3 per cent of assessed value—to pay for schools, fire protection, flood control and other essential services.

Property taxes are set by the state and collected by local authorities. Each county has its assessor, an elected official, who determines assessed valuation. In California, assessments have risen faster than anywhere in the U.S. thanks largely to a law of 1971 which requires the assessor to use the latest sale price of a house in fixing values throughout a neighbourhood.

Critics of Proposition 13 point out that the taxpayers who will get the biggest break are not individual homeowners, who own only one-third of taxable property in the state. Two-thirds of the Jarvis cut would benefit the biggest landowners, landlords and commercial-industrial property owners.

California has been thrown into a fit of Jarvis-Fever: state taxes by 60 per cent or more. Bills to this effect are already in the works. University chancellors and Nobel Prize winners debate that if the proposition passes and the State will not act as a sugar-daddy to local government. But in fact he have

stations, parks, even zoos, fore-contingency plans to deal with any post-Jarvis crisis. Tens of thousands of teachers have received provisional dismissal notices. The huge Los Angeles school district reports that it would be forced to cut its staff of 60,000 by about two-thirds—18,500 teachers and 21,000 other employees. "Education as we know it in California would be destroyed," according to Mr. Wilson Riles, the state's schools chief.

Mayor Tom Bradley of Los Angeles talks of slashing \$200m

A group of Californian citizens is seeking to roll back the property tax, the U.S. equivalent of rates. But the Governor, Mr. Jerry Brown, says "the State will not act as a sugar-daddy to local government."

moved. A majority apparently believe with Senator S. I. Hayakawa, a Republican, that "this is the shock treatment needed to bring big government to its fiscal senses."

To some extent, the treatment is already having effect. Mr. Brown, who is running for reelection this year, has moderated his attacks on Proposition 13 in recent days. From "a mirage that's going to blow up in our faces" it has become "a man-date to curtail government at every level which we'll have to carry out, if the people want it."

Mr. Brown is now saying in public that he believes that Jarvis-Gann will pass. Many "curturbments" have been spelled out already, in horrid detail, by a task force set up by Mr. Brown to study more illiterates each year?

California was ripe for a tax revolt. A mixture of inflation and speculation has sent housing prices soaring. Homes which sold for \$50,000 three years ago now fetch \$150,000, resulting in property tax leaps of 100 per cent or more in a single year.

Yet the state treasury bulges with a \$4bn cash surplus. Mr. Brown tried to hand some of the surplus back through a \$1bn tax relief bill earlier this year. It was vetoed by the State Senate. When it became clear that Bill would have great popular support, the Brown administration threw its weight behind a rival scheme, sponsored by a State Senator, Mr. Peter Behr, and tied to another proposition on the ballot, No. 8. The Behr Bill would give property owners a 30 per cent tax cut, and make up some \$1.5bn in reduced property taxes from the State surplus. Professor Milton Friedman, the Nobel Prize-winning economist, who is speaking out strongly for Jarvis and made his first TV commercial on its behalf, calls the measure "Behr-faced fraud." Dr. Friedman says the Bill is so written that the legislature could find ways around it, and return to their old habits once the threat of Prop. 13 was gone. The foes of Prop. 13 responded by producing not one but two Nobel laureates of their own who oppose the Jarvis initiative. How will California vote? Latest polls give Jarvis the edge, 42 per cent to 38 per cent. But should Prop. 13 pass, Mr. Brown's aides say it will be tied up in the courts for months, by legal challenges from public employee groups.

Proxmire to hold NYC hearings

BY OUR OWN CORRESPONDENT

NEW YORK, May 31.

NEW YORK City's struggle for financial survival takes the centre of the Congressional stage next week under the direction of Senator William Proxmire and before an audience of his Senate banking committee.

As chairman of the committee, Sen. Proxmire has scheduled four days of hearings next Tuesday and Wednesday and for the same two days the following week.

The committee was to have begun its investigation of the Carter Administration's proposal to provide \$2bn 15 year loan guarantees last week but the hearings were cancelled by the Wisconsin Senator when the city failed to line up the various elements of a complicated programme which was designated an essential condition for federal aid.

With the existing federal short-term loan programme due to expire on June 30, this delay put the city under great pressure, although crucial elements of this programme remain unattained.

City negotiators are to resume talks with municipal union leaders today on a new two-year pay deal after nearly three months of inconclusive discussion.

Sen. Proxmire and the Federal Government want to see a settlement which makes minimum pay concessions to the unions. Meanwhile, the New York state legislature is close to passing

legislation which would extend the life of the emergency Financial Control Board for a further 19 years and which would give it teeth to veto transactions which it believed were beyond the city's fiscal means.

However, the major New York banks and institutions have warned they will not purchase the \$1bn of securities necessary for the city's operations over the next four years unless a "sun-set" provision, allowing the Board's powers to wane, is removed from the legislation.

This is likely to be accommodated by the legislature which is also trying to move swiftly on legislation to increase the borrowing powers of the Municipal Assistance Corporation

Canada N-weapons delay

BY VICTOR MACKIE

OTTAWA, May 31.

CANADA WILL not have divested itself of nuclear weapons until about 1983-84, Admiral R. H. Falls, chief of the Canadian Defence Staff, told the Commons Defence Committee today.

He said that Voodoo aircraft may be displaced by 1983 by new fighters which the Government is in the market to buy.

The defence chief also told the committee that the neutron bomb was "less ominous" in that it produced less blast than a conventional nuclear warhead.

He was questioned by Opposition members, who pointed out that the Prime Minister, Mr. Pierre Trudeau, had left the impression, when he spoke at the UN General Assembly, that Canada was renouncing nuclear weapons immediately.

'Fuel saver' tyre backed

BY OUR OWN CORRESPONDENT NEW YORK, May 31.

THE U.S. Department of Transportation has found in favour of Goodyear's "fuel saver" tyre. In the meantime, General Motors made no secret of its anxieties about the safety of the tyre.

Goodyear unveiled the tyre a year ago, billing it as the "gas-saver" which yields 30 more miles on a full tank of petrol. Since then the company has been waiting for the Department's

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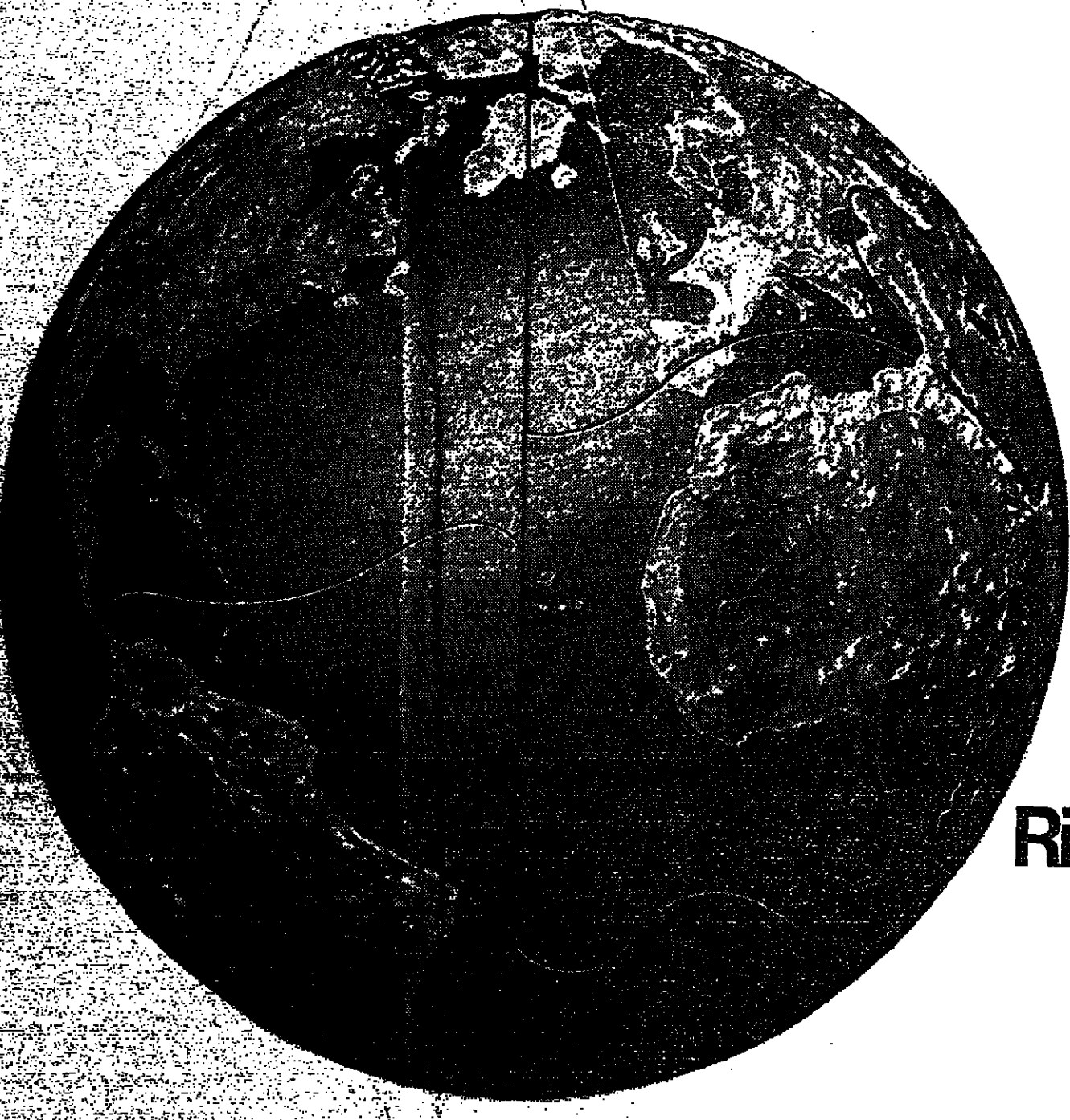
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OVERSEAS NEWS

Pakistan seeks \$800-\$900m help

BY DAVID WHITE

THE WORLD BANK'S Pakistan Committee of donor countries meets tomorrow and Friday to consider Pakistan's request for an increase in its debt relief programme for the 1978-79 fiscal year.

Pakistan is reported to be asking for a total aid package of between \$800m and \$900m. In 1977-78, the group of donor countries pledged about \$700m, including grants, soft loans and project loans. The amount of aid increased by about 5 per cent in 1977-78, according to Bank officials.

The committee groups 11 member countries and the Asian Development Bank, plus observers from international organisations, will discuss medium and long-range development prospects.

The committee last met in December after the postponement of its regular annual meeting in April last year because of the Pakistani political situation.

Iqbal Mirza adds from Karachi: Along with the aid commitments for the next year,

Pakistan has requested the committee to provide it with relief in connection with the repayment of debt which will become due from July 1, 1978. The debt relief or rescheduling which Pakistan is requesting is between \$250m and \$300m a year. It includes nearly half of the committee debt while the other half is due to be paid to the non-committee members of the World Bank.

In the four-year period which will end on June 30, 1978, Pakistan received a total

debt relief of \$550m which was rescheduled. Pakistan requested the committee to provide it with relief in connection with the repayment of debt which will become due from July 1, 1978. The debt relief or rescheduling which Pakistan is requesting is between \$250m and \$300m a year. It includes nearly half of the committee debt while the other half is due to be paid to the non-committee members of the World Bank.

In the four-year period which will end on June 30, 1978, Pakistan received a total

WORLD TRADE NEWS

Sales of Scotch to U.S. up 28%

PARIS, May 31

SCOTCH WHISKY exports in the first four months of 1978 rose by 13.3 per cent in volume to 32.7m gallons and 22.5 per cent in value to \$187.5m compared with the same period last year. Our Industrial Staff writes.

The main reason for the upsurge was a steep increase in shipments to the U.S. the world's biggest market for Scotch. In the first four months of 1978, exports to the U.S. rose by 28 per cent in volume and 35 per cent in value to 11.7m gallons and \$75.2m compared with the same period last year. The industry expects shipments to fall off steeply from now on.

For the world as a whole during the four months, exports of Scotch blended and bottled in Scotland were ahead by 10.4 per cent in volume and 22.4 per cent in value to 22.5m gallons (worth \$180m).

Export boost for Swedish pulp and paper industry

STOCKHOLM, May 31

Paper and board exports rose by 16 per cent to a total of 1.7m tons during the first three months of this year showed a considerable improvement, the Swedish Pulp and Paper Association says in their latest monthly report.

Total deliveries of pulp rose by 16 per cent to 1.09m tons and those of paper and board by 11 per cent to 1.33m tons compared with the same period in 1977.

The production of paper and board increased during the first quarter of this year by 33,000 tons or 2.4 per cent. The production of wood-free printing paper noted a sharp upswing. The deliveries of paper and board to other countries in the quarter displayed a favourable trend.

Despite the improved demand for Swedish pulp, production of paper and board this year has been down on approximately the same scale period.

as during the first three months of last year and amounted to 872,000 tons.

With growing deliveries this has meant a considerable reduction of pulp stocks. This trend is continuing during the second quarter and is expected to bring stocks to a normal level at the end of the first half of this year.

The deliveries of chemical paper pulp showed the sharpest rise in shipments. The demand for this type of paper is increasing steadily. The demand for bleached hardwood sulphate pulp was also strong during the first three months. Deliveries of mechanical pulp showed an improvement of more than 25 per cent during the first quarter of this year.

Chemical paper pulp exports to Western Europe increased by 9 per cent. More than 625,000 tons were delivered during the first quarter of this year.

WORLD BANK REPORT ON INDIA

Record aid recommended

BY K. K. SHARMA IN NEW DELHI

THE WORLD BANK has presented a flattering report to members of the Aid India consortium of major western countries and Japan which meets in Paris on June 8 and 9, but has nevertheless recommended substantially higher foreign aid. The Bank feels that although the Indian Government's development strategy will lead to a rapid rise of development expenditure and bring the economy to a more dynamic growth path, it will also advance the date when the growth of the economy will, once again, be resource-constrained.

The Bank forecasts that the trade deficit and the current account deficit will reach high levels during the second half of the 1978-1983 five year plan. Hence, the flow of external assistance will once again become an important factor in equilibrating savings and investment as well as in balancing the external payments. At present savings are marginally higher than investment.

When the consortium meets in Paris, it will consider the Bank's recommendation that foreign aid in 1978-79 should be raised to a record \$1.2bn from member countries. This amount will be matched by the World Bank, most of the funds coming from its soft-loan facilities, the International Development Association.

Thus, at a time when India's foreign exchange reserves stand at the high level of \$8.5bn and the Government is finding it difficult to put them to profitable use, foreign aid will come to the record level of \$2.4bn.

This suggests that the World Bank thinks that the surplus in India's trade for the past couple of years are temporary, and with them the rapid rise of foreign exchange reserves which

Foreign aid to India could rise to a record level of \$2.4bn when foreign exchange reserves are high at \$8.5bn.

has resulted largely from inward remittances by Indians working abroad (mainly in the Middle East and not, any longer, in Britain and the U.S.). The Bank's view is shared by the Government's economists who have cautioned against complacency just because of the export boom and the rising reserves. It is likely that the Bank's conclusions have emerged from discussions with Indian officials.

India's draft plan for 1978-83 similarly envisages continuance

of foreign aid on a substantial scale to meet the resources gap. The Plan has been stalled for political reasons since the National Development Council, of which all Chief Ministers of Indian states are members, called for a fresh version, to be considered again in November. But the draft makes it clear that the Planning Commission also envisages a resources gap to be filled by foreign aid.

The World Bank points out that external assistance to India has increased in the last five years, commitments rising from an average of \$1.4bn a year in the 1973-75 period to an average of \$2.5bn a year during 1975-78. Net disbursements have increased from an average of \$800m to an average of \$1.5bn.

But the Bank points out that the contribution of these flows to India's real import capability, given world inflation, did not increase between the two

periods. Net transfer of resources from abroad has never been above 3 per cent of GNP and fell to as little as 0.8 per cent between 1969-70 and 1973-74. India's repayment liabilities on external loans are estimated at between \$450m and \$500m annually over the next five years.

The Bank welcomes the draft Plan. With large stocks of foodgrains and an improved supply of foreign exchange, it says late circumstances present a great

opportunity for promoting the Indian economy. The Draft Plan responds to this opportunity by projecting a rapid growth in real terms of both overall investment and public expenditure.

The Bank is impressed by the Government's strategy for the agriculture sector. "Rural development is the centrepiece of development strategy and the draft Plan allocates an increased share of public expenditures to the rural sector. The Plan also responds to the urgent need to reorient the country's development towards improving the living conditions of the poor. This is reflected in the principal objectives: first the removal of unemployment and significant underemployment; second, an appreciable rise in the standards of living of the poorest sections; and third, the provision of basic need to the low income groups."

Though impressed by the Government's emphasis on the

Britain wins £3.5m banknote plant deals

BY ADRIAN DICKS

Portals has won contracts to install banknote paper making facilities in both India and Switzerland, a Financial Times reporter writes. The Indian deal, worth an initial £3.5m, is for the production of 100 million banknotes a year. The Swiss agreement, incorporating British equipment and technology valued at £1m, is for a cylinder mould paper machine at Landquart to allow banknote paper for the National Bank of Switzerland to be manufactured domestically.

Romania in new airliner talks

DUSSELDORF, May 31

ROMANIA is once again engaged in talks with VFW-Fokker, under which as many as 140 aircraft were to have been built in Romania and exported to East Europe.

Cancellation of the airliner production in West Germany after only 16 had been sold had been assumed to spell the end of the project.

Herr Johann Schaeffler, deputy chairman of VFW-Fokker, confirmed rumours circulating here for a week or two that the company had decided to resume production of the VFW 614 is still attractive to the Romanians. Last summer the company concluded a

joint production programme under which as many as 140 aircraft were to have been built in Romania and exported to East Europe.

Cancellation of the airliner production in West Germany after only 16 had been sold had been assumed to spell the end of the project.

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summed in VFW-Fokker's plans. Romania would have to take full responsibility for production, and would presumably therefore have to make its own arrangements with Rolls-Royce and SNECMA, builders of the M45H turbofan engine that powers the aircraft.

The possible revival of Romanian interest in the aircraft is not seen in West Germany as a threat to the chances of the British BAC One-Eleven, a new production of which is also under continuing discussion with British Aerospace.

Allied Breweries win big Iran consultancy contract

BY KENNETH GOODING, INDUSTRIAL CORRESPONDENT

ALLIED BREWERIES has won an engineering and technical consultancy contract for a \$12m expansion of the Iran-Malta company's brewery in Tehran.

As part of the Government's industrial strategy programme, the UK brewing industry has been concentrating on selling its technology overseas as well as giving a technical and technology service, with projects in Kenya, India, Spain and the Caribbean.

The Tehran brewery is the second largest in Iran and will remain so even though its capacity is to be increased to 600,000 hectolitres (roughly 90m pints) a year. It currently accounts for about a third of the Iranian beer market.

Middle East's rail network 'set to expand'

By Our Transport Correspondent

A SIGNIFICANT acceleration in the expansion of railways in the Middle East is foreseen in a report published today by the Economist Intelligence Unit.

The report, which surveys the whole transport and shipping scene in the area, says there is still the possibility of a "great rewards" for companies in the industrialised world prepared to accept the risks and challenges of involvement in transport expansion in the region.

Most of the railway building and improvement work, the report says, involve conventional systems, although Saudi Arabia may possibly opt to experiment with the latest Japanese technology on high-speed rail links.

Middle Eastern airlines, which have also shown strong growth rates, are expected to provide more work for industrialised countries, with sizeable orders for new aircraft over the next few years.

On shipping, the report predicts that a dramatic rise in oil and gas exports after 1980 will do much to remove the surplus in tanker and gas carrier tonnage.

There is no support for the theory that Middle East countries are likely to embark upon massive expansion of their fleets to take a large share of the freight involved in that expansion.

The future of road haulage services in the region is viewed optimistically. Progress is being made, the report says, on easing administrative restrictions, and reducing transit fees.

Middle East Shipping and Transport 1978-85. Economist Intelligence Unit, Spence House, 27, St. James's Place, London, SW1A 1NT. £25 or \$55.

Zairean general to be executed

LUBUMBASHI, ZAIRE

May 31. THE FORMER GENERAL commanding Zaire Government troops in Kolwezi has been sentenced to death for cowardice against rebels who occupied the mining town two weeks ago, the official news agency reported today. It said sentence was passed last Saturday on the officer after an 11-hour session of a military tribunal, officially called a "council of war."

The officer, named as General Tshibala, was accused of withdrawing troops and fleeing in the face of anti-Government rebels who invaded the town in Shaba province.

Meanwhile in Lusaka, it was reported that Zambian President Mr. Kenneth Kaunda would be to neighbouring Angola for talks with President Agostinho Neto next weekend. A State House spokesman declined to say what the two leaders would discuss. Mr. Kaunda's visit would be the main topic of the recent fighting in southern Zaire.

More than 1,000 people, including some 200 Europeans, are reported to have died in the fighting which began three weeks ago when Katangese rebels invaded Zaire's Shaba province. The rebels were repelled by French and Belgian paratroopers. The invasion has embittered Zaire's relations with Zambia and Angola, with the Kinshasa Government of President Mobutu Sese Seko accusing both countries of helping the rebels. The sources said it seemed likely that Mr. Kaunda would arrange a meeting with President Mobutu soon after his talks with the Angolan leader.

Reuter

Lebanon truce threat after heavy shelling

BY HSN HIAZI

BEIRUT, May 31

RECURRING TENSION in southern Lebanon is threatening the fragile truce there after twelve people were killed in two days of heavy shelling from Nabatieh and seven surrounding villages.

The Palestine Liberation Organisation (PLO) whose forces control the town about nine miles from the Israeli border, has warned that it will retaliate if the shelling continues. A communiqué by the Palestinians said that five people were killed and 17 wounded in heavy shelling of the town and neighbouring villages last night.

Lebanese Right-wing allies have been accused of mounting the artillery barrage which started on Tuesday night.

The tension coincided with talks today between Mr. Elias

Israel must act against inflation

By L. Daniel

TEHAVIV, May 31

AN URGENT request to the Government to cut the state budget by 15m (more than 2 per cent) and to collect 12-30m more in taxes on the basis of the existing tax rates, is contained in the annual report of the Bank of Israel, submitted to the Knesset finance committee today.

These steps are urgent if inflation is not to get out of hand, the report says. The Government has been running 12.5bn monthly deficit during the last six months, and this has caused demand inflation. If this trend continues, deficit financing will rise from the currently projected 12.5bn to 18.5bn or 10 per cent of the budget, the committee says.

To the inflation of these large amounts to the economy has already raised prices of real estate and durable goods and will result in a new round of wage demands. Economists also fear that the expansion of exports in recent months will be halted by the home market absorbing imports of such goods as cars and electrical appliances. Both trends would reverse the improvement in the balance of trade during the last two years.

The Israeli pound has fallen by 14 per cent against the dollar since it was floated on October 28 last year at a tentative rate of 16.50 to the dollar. But while it has dropped by 7 per cent in the last six months, it has fallen by a further 7 per cent since the end of April and is now pegged at 17.50 per dollar, while banks buy at 17.50.

Japan TV sales fall

Japan's colour television exports fell 12.7 per cent in April to 264,415 sets from 302,882 in March and down 35 per cent to 422,867 in April 1977. Reuter reports from Tokyo.

The Japan Electronic Industries Association said the fall was due mainly to reduced shipments to the U.S. and West European countries.

Belem project move

Joao Paulo dos Reis Yelloso, the Brazilian Minister of Planning, told a press conference that formal agreements on a \$4bn agricultural and aluminium project will be signed between Brazil and the U.S. next month.

AP-DJ reports from Tokyo. The ventures are an aluminium smelter with an annual capacity of 320,000 tons and an aluminium plant with an annual capacity of 100,000 tons in the suburbs of Belem.

Chinese interest in UK's North Sea oil technology

HONG KONG, May 31

CHINA is interested in British North Sea oil exploration and extraction technology, the leader of a British trade mission said here today.

"China has enormous oil reserves, but now needs the know-how to exploit them," he said on return from an 11-day visit to China.

Lord Glenamara, formerly Mr. Edwards, Short, deputy leader of the Labour Party, said three oil experts on his mission had stayed behind in China to visit oil installations at the request of the Chinese.

Lord Glenamara led a mission organised by the North of England Development Council. The three men who had stayed behind were Mr. David Kemp of the British Gas Corporation, Dr.

Colin Wilkinson of Phillips Petroleum Exploration and Mr. M. A. Kirby of British Petroleum.

Lord Glenamara said the knowledge British oilmen had amassed during the search for North Sea oil was now the information the Chinese wanted to use in expanding their own oil exploration and production.

During the visit, the mission met Vice-Premier Peng Shih-en, Minister in charge of State Economic Commission, who asked Lord Glenamara to help arrange exchanges of oil technology with Britain.

Lord Glenamara said the Chinese also expressed interest in mining machinery and had asked the Development Council to send another mission soon.

Reuter

Burmese-Bangladesh tension increases

BY SIMON HENDERSON

SERIOUS BORDER tensions and strained relations between Bangladesh and Burma have resulted from the forced exodus of thousands of Muslim refugees from Burma to Bangladesh. Mr. Tobarrak Hussein, the Bangladesh Foreign Secretary, said here today.

Some 150,000 refugees have so far arrived, he said, adding that no country had the moral or political right to expel a minority. He said some of the refugees were driven to the border by gunfire and there had been some shots fired across the border. There were no Bangladesh casualties but in several cases arms had been fired back in self-defence.

Outlining the latest position of the refugees, who are being kept in nine camps established along the 200-mile border, Mr. Hussein said the refugees continued to claim that they were forced into

Fresh Rhodesia talks bid

BY MARTIN DICKSON

BRITAIN AND THE U.S. today launched a fresh diplomatic effort designed to pave the way for a round table conference on Rhodesia, but the mission appears to stand little chance of success.

Mr. John Graham, a Deputy Under-Secretary at the Foreign Office, arrives in Lusaka today to team up with Mr. Stephen Low, the U.S. ambassador to Zambia, to lead a two-man mission to Rhodesia to shuttle diplomacy, will tour southern Africa in an attempt to set up a round table conference.

While the Patriotic Front

guerrilla movement has accepted the idea of a conference, the parties to the so-called internal Rhodesian settlement said last month that such a meeting would be "doomed to failure." Since then, there has been nothing to indicate any change of heart by the internal leaders.

Quentin Peel writes from Johannesburg: A new wave of demonstrations of black activists has been launched by South African security police, in what is seen as a possible attempt to head off demonstrations timed to coincide with the anniversary of the Soweto riots on June 16.

Poland aims for trade balance

BY ANTHONY ROBINSON, RECENTLY IN WARSAW

POLAND is making steady progress towards eliminating its trade deficit with the West by 1980. But future plans for the expansion of coal and raw materials industries in particular mean that Poland expects to continue borrowing on Western capital markets for the foreseeable future, the First Deputy Finance Minister, Mr. Marian Krask, told the Financial Times in an interview in Warsaw.

The financial authorities are clearly concerned about unfavourable Western Press comments on the terms agreed on some recent signed Polish loan agreements, and the doubts which Poland's ability to bear the heavy debt servicing and repayment charges scheduled for the early 1980s.

Unofficial estimates put Poland's outstanding foreign debt at around \$13bn which is considerably higher than the Polish authorities originally planned for several reasons, of which the most important is the series of bad harvests which have led to heavy imports of Western, mainly U.S., grain.

Grain and fodder imports are expected to cost around \$2bn in the 1977-78 period and the Polish authorities made it clear at the start of the year that they would have liked the U.S. Commodity Credit Corporation (CCC) to agree to a formal 10-year agreement to replace the existing three-year arrangement with the U.S. Agriculture Department which expires next year.

The U.S. gave a further \$500m credit for grain and fodder purchases this year and the Polish Secretary Bob Bergland, in Warsaw earlier this month, con-

Poland aims for trade balance

BY ANTHONY ROBINSON, RECENTLY IN WARSAW

firmly that "Poland has asked for some additional time in which to make these instalment payments." Talks will be held in Washington in July to set a new long-term financing arrangement to be agreed to, he added.

The Polish authorities emphasise that the bulk of their foreign borrowing has been directly linked to investment and import of sophisticated plant and machinery. A high proportion consists of government credits and supplier credits.

According to Mr. Krask, "future borrowing will continue for long years to come, but at a decreasing rate, provided both sides are agreed," but he added, "we do not want the West to use the argument that we are too heavily indebted to raise the cost of borrowing."

There are signs, however, that some recent Polish loans have carried significantly higher interest rates than other Comecon country loans.

A case in point is the recent two-year \$40m loan arranged by Bank Handlowy with a group of exclusively Arab banks led by Union des Banques Arabes et Francaises (UBAF). The spread of 1.125 per cent over LIBOR looks high compared with current rates for similar loans to other Comecon borrowers like Hungary.

But Mr. Roman Malosa, President of Bank Handlowy, claims that the loan was an exception, being the first with an exclusively Arab group and specifically to finance oil and phosphate imports rather than a future export generating investment project.

Nevertheless the authorities have been sufficiently worried by the Western attitude to the

Poland aims for trade balance

BY ANTHONY ROBINSON, RECENTLY IN WARSAW

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HOME NEWS

Coal Board hit by EEC energy row

By John Lloyd

THE NATIONAL Coal Board's marketing plans have received a serious setback from the inability of the Common Market countries to agree on a proposal to subsidise EEC-produced coal.

The proposal to spend about £300m over three years in subsidising EEC coal—largely British and German—for use in power stations was regarded by the Coal Board as a means for breaking into the European market.

It is estimated that it might sell about 5m tonnes by 1981. Exports last year were about 1m tonnes, mainly to Europe.

The Coal Board needs extra market for its coal, partly because its production is rising due to the incentive bonus scheme and partly because sales to the steel industry remain low. In addition, its largest single customer, the electricity industry, will probably cut its order next year by as much as 5m tonnes.

Government advisers inquiry

By Philip Rawstone

THE Civil Service Commission is considering whether changes should be made in the rules governing the appointment of special advisers to Government Ministers. At present, political advisers can be appointed only as temporary civil servants for a period of five years.

Several advisers to Labour Ministers would have to resign next year if the Labour Government is still in office. A Downing Street spokesman, however, denied reports that Mr. James Callaghan had initiated the inquiry into the situation.

Though the Civil Service department is involved in the inquiry, the Prime Minister is understood to have made no proposals himself for changes.

SOCIETY MERGERS MAY BE KEY TO PROGRESS

High Street war poses dilemma for co-operative movement

BY ELINOR GOODMAN, CONSUMER AFFAIRS CORRESPONDENT

FINANCIAL losses in the last year by two of the biggest Co-operative retail societies, are increasing the serious concern of a number of the movement's senior executives at the trading position of some individual societies during the High Street prices war.

One of the two societies, the Royal Arsenal, reported a net loss of almost £970,000 in the year to January 21, 1978, on sales figures of almost £124m and faced severe criticism from its shareholders.

The second, the London Co-operative Society, was forced to sell assets, including shares in London Weekend Television, to finance a £986,000 trading loss. The London's turnover last year was up nearly 8 per cent to £207m, but sales terms, this makes it three-quarters the size of British Home Stores, which reported pre-tax profits of £27m last year on sales of £274m.

Difficulties faced by some of the 206 individual societies in competing with private traders such as Tesco were raised at this year's Co-operative Congress in Scarborough, which ended yesterday.

The feeling is that unless the performance of these societies improves, the Co-operative Retail Services—traditionally the society which takes over others in trouble—could find itself with too much on its plate.

With profits under pressure, the price war among grocers, and the increasing need for capital to build the really big supermarkets, there seemed at Scarborough to be slightly less resistance to the idea of change than there has been for several years.

Two societies in the South Midlands, for example, are to merge to form a new single society with annual sales of well over £30m—a deal which may be followed by others among the

traditionally fiercely independent retail societies.

The figures show that the movement failed last year to sustain the improvement in market share which it had achieved in the previous three years. Its share of total trade fell fractionally to 7 per cent.

Within this global figure, which still makes the Co-op Britain's largest trader, are very wide variations in performance. Some individual societies like the North Midland did well, but others have had a difficult time.

Such worries are not new in the movement, whose autonomous societies are ultimately controlled by its members. But the emergence of supermarkets, each costing several million pounds—as an important feature of the grocery market, has meant that societies need more capital than they can sometimes raise on their own.

Societies, even some of the larger ones, have been criticised for not sticking to the financial disciplines expected of them. Some in the past have paid more out in dividends than they have made in surplus and have run down their reserves.

At times during the three-day congress, these problems were highlighted by speakers from the platform who called for new initiatives by the Co-op's governing bodies.

The congress also demonstrated the movement and aims of the movement which make it impossible to judge it as just another supermarket group fighting for the housewife's purse.

In spite of the concerns in some quarters about individual societies' results there was far more general interest in the increasingly difficult question of how best to preserve the movement's social purpose in a world very different and much more affluent than it was when the Rochdale pioneers started it all and the

Co-op was part of working-class life.

These two questions, as several speakers pointed out, are inter-related, because without profit there is no money to finance the movement's wider objectives.

Resistance to change still remains extremely strong spite of the murmurings about the need for larger societies.

The central executive has long favoured a grand regional plan which would reduce the number of existing societies to 26, but in the last three years the number of mergers has fallen to a trickle.

Talks get hung up on points which in other organisations would seem inconsequential. The Luton Society, which is now to merge with Northampton to form a new South Midlands Society, was previously in merger talks with Enfield Highway, with groups like Tesco.

This would have been along the lines recommended by the regional plan. But the discussions apparently foundered on the question of what the new society should be called.

Enfield apparently insisted on the inclusion of the word "highway" so Luton turned instead to Northampton, which under the regional plan is part of another regional group.

The deal is therefore a good and a bad thing from the point of view of advocates of the grand plan.

On the good side, the merger has not come about through weakness—though both societies must have come under pressure from the price war—and the idea seems to be to enable the larger group to build the kind of large modern stores it needs if it is to compete effectively with groups like Tesco.

Allied Breweries workers given details of changes

BY KENNETH GOODING

DETAILS of the major reorganisation of Allied Breweries' beer division—which led to the resignation from the Board of Dr. Bernard Kilkeny in January—have now been given to the 20,000 employees involved.

The plan splits the beer division into 11 separate companies, each becoming an independent profit centre. In some of the companies, the sales and administration side will be merged with brewing and distribution.

The companies will be given stronger management teams and hand-picked men will be drafted in to look after the finance and personnel functions.

Mr. Douglas Strachan, new managing director of the beer division, who was appointed after the departure of Dr. Kilkeny, has told employees there will be no enforced redundancies or loss of terms and conditions.

So far, no talks have been started with the unions, but it must be assumed that Allied will be hoping to cut employment within the division by way of voluntary redundancies and natural wastage.

Ford puts up car prices by 3.8%

BY STUART ALEXANDER

FORD began a new round of car price increases yesterday when it announced rises averaging 3.8 per cent, with effect from midnight last night. This is the first Ford rise since January 7 this year, when prices went up an average of 4.8 per cent, and hopes continue that the spiral of rises every 90 days has now been broken.

No other car manufacturer followed suit immediately but it is known that British Leyland has a round of increases in the pipeline and these are likely to become effective within four to six weeks.

Vauxhall and Chrysler are holding off for the time being but it is unlikely they will be able to maintain their prices beyond the end of July. Vauxhall last raised prices on January 1 as did Chrysler, with the exception of Sunbeams and Alpines, which went up on April 1.

Ford can afford to be first to put up its prices as it is taking over 30 per cent of the UK market and, in the Cortina, has Britain's best-selling car. It has avoided discounting and Ford dealers should be making healthy profits.

It blames the rises on increased costs of raw materials, components and services.

Examples of some of the new prices, with the old prices in brackets, are Escort Popular 1100 two-door £2,205.36 (£2,122.53), Fiesta 1100L £2,611 (£2,538), Cortina 1600L £3,242 (£3,130), Granada 2800GL automatic £6,143 (£5,912).

Enterprise Board 'adrift by £450m in costing new plant'

BY MAX WILKINSON

THE National Enterprise Board was accused yesterday of grossly under-estimating the cost of its plan to set up a new semiconductor plant in the UK.

Mr. Jack Akerman, managing director of Mullard, the Philips subsidiary, and chairman of the National Economic Development Organisation sub-committee for the industry, said the board's calculations appeared to be adrift by at least a factor of 10.

He said international studies showed that some £500m would be needed to set up a viable semiconductor company competing in the market for world standard products like computer memories and micro computers.

However, it appeared that the Enterprise Board believed it could be done for £50m or less. Mr. Akerman added: "The amount it is reported they are prepared to spend will not buy much more than a do-it-yourself kit for semiconductor manufacture. It is totally inadequate to compete in a field where technology is highly complex and changing all the time."

Philips had invested around £500m in semiconductor manufacture, including the purchase of a U.S. company, Signetics, he said. Other multinationals with experience in the electronic markets had invested at about the same rate.

Experience

The French and Japanese Governments both understood that expenditure running into hundreds of millions of pounds was needed to keep pace with research and development and manufacturing techniques, as well as to gain experience in a highly competitive world market.

You can easily lose £10m a year on a single product. Then, as soon as you start to design a new product, you find that half your equipment is out of date," Mr. Akerman said.

He was astonished that the Enterprise Board should have gone ahead with its plan to form a new company without consulting any of the industry representatives on the NEDO sector working party for the industry.

"I am chairman of the sub-committee for active components which is supposed to be working out an industrial strategy for the UK semiconductor industry. Our report will be delivered to the Government shortly, and we suddenly find the Enterprise Board is doing something completely different."

The working party will endorse the Department of Industry view that the setting up of a "main line" semiconductor company in the UK would cost about £500m and prove too expensive for the UK to consider on its own.

Advisers to the French and German Governments and European Commission officials have also concluded that a head-on challenge to U.S. or Japanese semiconductor companies would be very risky for any single European country and perhaps prohibitively expensive.

The German Government is contributing £75m to a four-year investment programme of around £150m up to this year centred on aid to Siemens. However, the Germans have so far concentrated on special purpose circuits rather than world markets for standard products.

French Government support for its industry is said to depend upon plans for a partnership with a major U.S. company, possibly Mostek.

Siemens, in Germany, and the General Electric Company, in the UK also believe that acquisition of a U.S. company or a partnership with one of the leaders of the industry may be the best way to enter the U.S. and the world markets.

NEWS ANALYSIS — CAR LEASING

Tax battle looks imminent

BY DAVID FREUD

THE Inland Revenue indicated clearly for the first time this week that it plans to move strongly against what it considers tax abuses by some members of the mushrooming car leasing industry.

Harold Garry, a main Ford dealer, says that the Revenue was opposing the 1977 tax relief claimed on leasing activities. Although the exact grounds for the opposition have not been disclosed by either side, it is known that the Revenue has become increasingly dissatisfied with some of the uses which have been made of the favourable tax status.

It has no objection to leasing arrangements by car hire companies, but is more sceptical of cases in which companies supply leased cars to their employees and directors.

And the Revenue believes that current legislation already rules out favourable tax treatment where the car ends up in the hands of the employee or director after the leasing period.

Several companies have been

offering schemes with this ownership provision. However, the Revenue has given firm indications that it intends to disallow the tax claims when they are eventually made.

Three elements have come together to cause the present clash.

First, two decisions by Special Tax Commissioners in 1975 changed the tax status of leasing cars, making the practice vastly more attractive.

This, combined with the looser credit controls introduced last July, has fuelled an incredible upsurge in car leasing. The value of the business was estimated at £6m in 1976; £59m in 1977; and this year there are projections of total activity in the region of £200m.

Finally, the Inland Revenue seems in the last few years to have adopted a much more vigorous attitude to tax avoidance.

The special commissioners' decisions in favour of Godfrey Hays and Ford Credit in July 1975 meant that cars could be

treated in the same way as any other equipment under the capital allowance provisions of the 1971 Finance Act.

This meant that a lessor of a car could claim full tax relief in a single year against his purchase, rather than spreading the relief over four years, as before.

The decision doubled the tax advantage of leasing. As before, rentals on leased cars were fully tax deductible for companies, and deductions for a purchased vehicle were full spread over four years.

Additionally, the lessor gained a 100 per cent tax write down, the benefit of which he could pass on to the lessee if he had sufficient profits to set the allowance against.

This requirement explains the fact that the leasing industry is dominated by the big clearance banks and their subsidiaries, with their reliable profits.

The schemes to which the Revenue objects go a stage further after the leasing period, which is normally two years. Clearly the vehicle cannot be sold direct to the company which is the leasing customer, since this would transform the transaction into hire purchase and remove the tax advantages.

Instead the car is sold under the schemes to the executive of the company at a value far below its real worth in the second-hand market—typically at about 10 per cent of the original capital cost.

However, the Revenue now looks as if it is preparing to put a stop to these arrangements in a number of ways—all under present legislation.

First, it may deny the company which leases the car tax deductions for the rental payments. Secondly there are signs that the executives will be taxed under the benefit in kind legislation.

Last, it may hit at the leasing company itself. It could do this either by obliging it to bring the full open market value of the car on sale into its calculations of capital allowances, or if the agreements always lead to sales to executives, it may argue that the car is not a capital asset but stock in trade and does not, therefore, qualify for first-year allowances.

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HOME NEWS

De Beers cuts gem surcharge to 15%

BY PAUL CHEESRIGHT

THE SQUEEZE on the international rough diamond market relaxed yesterday when the De Beers Central Selling Organisation told clients that the surcharge on gem stones at its next London sale would be cut to 15 per cent.

The organisation controls the flow of about 85 per cent of the world's rough gem stones on to the world market and holds 10 sales a year for about 300 selected clients.

The surcharge at its March sale was 40 per cent, and 25 per cent at its most recent sale in May.

The policy of levying an extra charge on a flexible basis was adopted in March in a bid to quell speculative trading in rough stones.

Stockpiles grew in main diamond cutting centres, particularly Israel, and stones were changing hands at a premium of up to 100 per cent on the organisation's list price.

The progressive reduction of the surcharge indicates that the level of speculative trading has lessened, and that the rough diamond market has returned to conditions approaching normality.

De Beers said that the allocation of stones to clients would be virtually normal in relation to their demands.

Deprived

This gives little clue as to whether the amount at the sale, starting next Tuesday, will be greater than that offered in early May, but suggests that clients will not be deprived of stock as some were in April.

Over the last two months, premiums offered on stones in the secondary market dropped markedly. Some goods have been selling at prices of 10-15 per cent under the level of the De Beers list price, plus the 25 per cent surcharge obtaining in May.

Stones have also been coming back on to the market from Israel.

Demand for polished diamonds—stones which have passed from the organisation through the first stage of manufacture—has been quiet but firm.

The organisation's flexible policy makes predictions about future pricing difficult. But it is believed in the industry that the 15 per cent surcharge may be the last, and that the organisation will raise its list price to meet the surcharge level within the next few weeks.

Public 'needs education' on insurance

By Eric Short

INSURANCE COMPANIES needed to do more to educate the public about insurance matters and to tell them the facts about life insurance, especially its achievements, said Mr. Joe Muehry, general manager of the Scottish Provident Institution, at a seminar in London yesterday.

Life insurance had much of which to be proud in its operations. It was one of the more successful of British "industries." Yet like a lot of other industries, it was condemned unjustly simply through lack of understanding.

He considered that if everyone understood better what it was trying to do, and how it was trying to do it, it would receive more sympathetic treatment from politicians and others.

There would be much less talk about direction of investments, and a general desire by politicians to run the insurance industry.

Mr. Muehry said that the British Insurance Association and the Life Offices Association had produced some excellent educational kits for schools and other educational centres covering all aspects of insurance. He urged that more use be made of these.

Parents press for drug damage inquiry

PARENTS who believe their children have been damaged by hormone pregnancy testing tablets are to see Mr. Roland Moyle, Health Minister, next Tuesday to renew calls for an inquiry.

The parents, whose campaign is being led by Mr. Jack Ashley, Labour MP, are angry at Mr. Moyle's refusal of a request for an inquiry during a Commons debate last week.

Damage attributed to the drugs withdrawn in 1976 for pregnancy testing, include heart and limb defects and cleft palates. It has been estimated that thousands of children may have been affected.

JUDGE URGES HOME SECRETARY TO DEPORT 'HUNGARIAN CIRCLE' Five jailed for bank drafts swindle

JAIL SENTENCES ranging between 41 and 14 years were imposed at the Old Bailey yesterday on five members of the "Hungarian Circle," who tried to swindle banks out of millions of dollars with forged bank drafts.

Judge Gerald Hines, said he intended to recommend that all five men be deported when the requisite notices expired tomorrow.

"As people have come here, primarily if not exclusively, to exercise this kind of plan, it must surely be right that the Home Secretary should be invited to give serious thought to the question whether they should be sent out of the country as soon as possible," he said.

The heaviest sentence was imposed on Henry Oberlander, 51, of Clarendon Road, Notting Hill, who was jailed for 14 years.

He was also fined £25,000 on each charge, with an extra 12 months in default of payment.

He was also ordered to pay £15,000 prosecution costs and the question of his defence costs was referred to the Legal Aid Commission.

Francisco Fiocca, 48, of Westbourne Gardens, Paddington, a master forger, was jailed for eight years for his part in two conspiracies, and ordered to pay £25,000 prosecution costs and up to £2,500 defence costs.

The judge told him: "I am satisfied that throughout the period that you were here you were purposefully and effectively engaged in the work of forgery and playing an extremely important part."

Hyperbole

Two men were jailed for six years. They were Andre Birn, 52, of Rosslyn Hill, Hampstead, described as the quartermaster and South American controller in the Hungarian Circle, and Emil Fleischmann, of Ladbrooke Mews, Notting Hill, a stateless Hungarian born in Budapest, who also assumed many identities as he helped Oberlander to pass forged bank drafts.

Birn, in addition, was ordered to pay £25,000 prosecution costs and not more than £5,000 defence costs.

Jorge Grunfeld, 55, also of Clarendon Road, a naturalised

Argentinian born in Romania, who travelled the world obtaining signatures on genuine bank drafts which the forger could later copy, was jailed for 41 years and ordered to pay £500 prosecution costs and up to £500 defence costs.

Mr. Kenneth Richardson, for the Crown, said when the case opened that the forgeries were brilliant and the fraud so vast had they gone undetected they would have undermined the banking system of the Western world.

Mr. Ashe Lincoln, QC, asked the judge in mitigation to "treat that as mere hyperbole, which the Crown was entitled to use in opening its case." He submitted that there was no evidence to justify the expression.

Passing sentence, Judge Hines said: "This is a case which has lasted a substantial time and about which I do not think anyone would dispute—there is great gravity."

He said comment had been made in the Press and elsewhere about the case but, as the judge, he felt he must deal with the facts as they had been established in court.

In deciding the future of the five men and the question of deportation, the judge said he had first to consider whether the

case was so grave that it must be dealt with on the basis of its gravity rather than the interests of the individual.

He believed it was of such intrinsic gravity that the offences proved could have caused a great deal of potential damage to the community. He had to have regard primarily to the public interest in deterring conduct of this kind.

In deciding the maximum penalty for the offences, he had to have regard to the penalties which would be imposed for such serious crimes as murder.

"I have excluded the possibility that this case falls wholly into the exceptional category comparable with the jail sentences in such cases as the Richardson trial and the Train Robbery case in which there was quite vicious brutality."

Extreme care

"This case, I think, misses that, though perhaps not by a very great margin." Notable in the present case was the absence of violence for which credit would be given.

The frauds were planned and carried out with extreme care and the profusion of forged documents was of considerable variety, the judge said.

More tourists stay in London hotels

BY SUE CAMERON

MORE TOURISTS stayed in London hotels last year than ever before, according to a survey carried out for the English Tourist Board and published yesterday.

The survey, based on monthly figures from 420 hotels throughout England, showed that an average of 65 per cent of beds and 75 per cent of rooms in London hotels were occupied during 1977.

In 1976, the figure for beds occupied was 57 per cent and in 1975 it was only 51 per cent.

During last year, seasonal occupancy rates for beds in London hotels varied from 83 per cent in July to 46 per cent in December.

The total number of overseas visitors to London was 7.8m in 1977 compared to 6.8m in 1976. The number of British visitors to the capital remained constant at 11m.

In other parts of the country, the overall level of occupancy remained static, cheaper seaside hotels had fewer beds, but this was balanced by an upturn in the business done by hotels in larger towns.

The survey, carried out by A. C. Nielsen, shows a steady

decline over the last few years in the number of guests going for holidays to seaside hotels charging under £5.50 a night for bed and breakfast.

Average occupancy in seaside hotels went down from 39 per cent in 1976 to 36 per cent last year.

Hotels in big towns and more expensive seaside hotels have been able to maintain or increase the numbers of their guests, partly because of conference trade.

Figures for the regions showed there was a drop in occupancy rates in the North.

Particularly marked in the North West, where figures for the peak season, July to September, fell from 65 per cent in 1976 to 53 per cent in 1977.

The highest regional occupancy figure recorded last year was 80 per cent for the South-Hampshire, East Dorset and the Isle of Wight.

The London Tourist Board said that it was pleased with the results of the survey because it suggested that the spare hotel capacity of previous years was being utilised. The aim now would be to achieve a more even spread of hotel guests throughout the year.

Slowdown of profits in May reports

Financial Times Reporter

TAXABLE profits in the 212 industrial company reports and accounts received during May showed the smallest percentage increase on the comparable year-ago figures since mid-1976.

The rise of 7.4 per cent compares with the previous month's 15.8 per cent increase. Some of the bigger companies acting as a drag on the overall performance included Dunlop Holdings and Guest Keen which showed respective falls of 29 and 19 per cent.

On the other hand, Richard

Costain stood out with a 55 per cent profit gain, and others connected with the building industry which made good progress included AP Cement, up 30 per cent, and Ready Mixed Concrete, 23 per cent, while Hawker Siddeley, with a gain of 30 per cent, and Delta Metal, 22 per cent, were also prominent.

Dividend costs in the May reports showed a rise of 181 per cent on the previous year. This is below the 26.6 per cent rise in April reports but slightly better than the first-quarter increase of 16.3 per cent.

ITV ex-editor wins a medal

THE ROYAL Television Society has awarded its 1978 Gold Medal to Sir Geoffrey Cox, pioneer editor of ITN and creator of News at Ten. This medal is awarded each year for good contributions to television.

Sir Geoffrey resigned his television directorships last year to become spokesman for the independent television companies at the time the Annan Report was being compiled. He remains a consultant to Trident, and chairman of an international news-film agency.

Denmark visit

MR. JOHN FRASER, Minister of State, Prices and Consumer Protection, on a three-day visit to Denmark during which he will meet the Danish Consumer Ombudsman, Mr. Niels Engholm, and members of the Consumer Council. He will also have talks with Mr. Erling Jensen, Minister of Justice and Mr. Ivar Norgaard, Minister of Commerce.

Enterprise Board assets 'should go to industry'

BY MICHAEL BLANDEN

A DRAMATIC reduction in the amount of Government intervention in industry is proposed in a new Hobart Paper published by the Institute of Economic Affairs.

The paper puts forward radical proposals, including removal of the monopoly positions of the nationalised industries, abandoning the attempt to sign planning agreements with industry, and selling the assets of the National Enterprise Board back to private industry.

Written by Prof. S. C. Littlechild of the University of Birmingham, the paper provides a critique of present UK economic thinking and policy from the point of view of the Austrian school of economists, whose main spokesman recently has been Prof. Littlechild.

Prof. Littlechild concludes that "the present extent of Government intervention cannot be justified if the aim is to encourage an efficient, responsive and increasingly wealthy economy."

Effective

"A more effective way of achieving the desired end would be to promote the competitive process by removing Government-imposed barriers to new entry and by strengthening the system of private property rights."

Prof. Littlechild puts forward four main proposals:

● The Monopolies and Mergers Commission should no longer be responsible for mergers. This would make it easier for efficient large companies to expand and withdraw protection from companies whose assets are not being used as efficiently as they might be.

● Patent monopolies should be

abolished, exposing the established companies in industries such as pharmaceuticals and computers to active competition from new and smaller companies.

● Allowing competition against the nationalised industries and enforcing financial discipline would lead to more rapid closures of inefficient steel works and coal pits, and the postal side of the Post Office would contract—though its telecommunications side would expand.

● Abandoning Government intervention in the planning process about planning permission does not necessarily mean that external issues such as the environment would be ignored.

Private property rights should be better defined and enforced so that these less tangible goods could be transacted in the market.

● To abandon the attempt to sign planning agreements would remove a potential hindrance from the larger companies, and to sell back the assets of the National Enterprise Board to private industry would mean less help available for companies in distress.

Employees and shareholders in such industries would suffer, at least initially, but consumers and taxpayers would benefit.

Prof. Littlechild says that adopting the recommendations would not immediately solve Britain's economic problems.

Though many people would benefit, others would initially experience "serious and unpleasant changes in their lives."

The *Fallacy of the Mixed Economy* or "Austrian" critique of economic thinking and policy, Prof. S. C. Littlechild, Institute of Economic Affairs, Hobart Paper 80, 88 pages: £1.50.

Good start at Watlingtonbury

CHRISTIES' yesterday started

Best price was £20,000, plus 10 per cent buyer's premium, paid by a Spanish private buyer for an important suite of early George III walnut seat furniture in the Chinese Chippendale style.

The buyer also acquired, for £13,500, a pair of George III mahogany commodes.

Other good prices were the £25,000 for a Swiss private buyer for a Swiss kingwood and new bureau cabinet of the mid-18th century, the £21,000 from Partridge Fine Art of London, for an ornate ebony and pietra dura side cabinet, c. 1830; and £20,000 from R. A. Lee, another London dealer, for

a George III mahogany pagoda cabinet in the style of Thomas Chippendale.

An Italian ebony cabinet on stand, of the mid-17th century, realised £19,000 and Partridge Fine Art, again, paid £16,000 for a George III ornate mounted mahogany commode.

The same sum secured an Italian porphyry and rosso levanto marble bust of the Emperor Vespasian, made in Rome, c. 1600. It was bought by the Musée de Versailles. In 1882, it sold at Christie's for £25.

A pair of late George II mirrors went to Christopher Gibbs, the London dealer, for £12,000.

Commission acts on sale of cheap imported steel

BY ROY HODSON

IN NEW moves to check sales of cheap imported steel into British and European markets, the European Commission has taken action against East Germany and Australia.

Both countries are alleged to have been selling their steel at below the import prices set by the EEC Davignon Plan.

The commission has imposed a definitive anti-dumping duty on some types of zinc-coated sheet and plate from East Germany.

Such duties are already in force against some other East German steel products.

The move is seen as an important development in Community action against the high levels of steel imports into EEC markets from the Comecon nations.

In its action against Australian trading, the EEC has decided against a definitive anti-dumping duty.

Instead, provisional anti-dumping duties already imposed on iron and steel coils from Australia, exported to Europe

for re-rolling, will be extended. A feature of the commission's measures against steel imports is that the rate of duty is variable.

Arrangements

It can be reduced to the extent that the importer satisfies European customs that the import price is lower than the basic price because of the inferior quality of the goods.

Other steel-producing countries named in recent EEC anti-dumping legislation for iron and steel products include Bulgaria, Czechoslovakia, Romania, South Korea, Japan, Poland and Spain.

Viscount Eleanore Davignon, the Industry Commissioner, who devised a plan for protecting the European steel industry and allowing it a breathing space to stabilise, has secured bilateral steel trading arrangements for the Community with EFTA members and other countries.

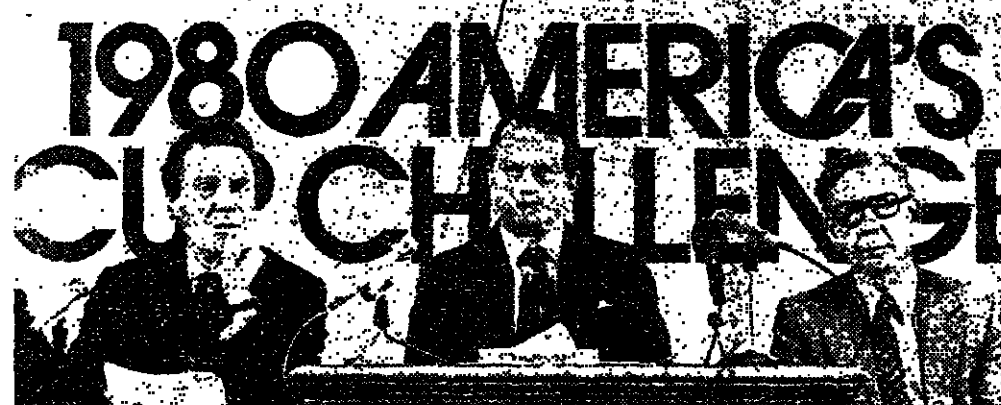
The British Steel Corporation and the private sector steel-makers belonging to the British Independent Steel Producers' Association say that the import restrictions are broadly having the intended effect.

Steel prices have hardened in Britain and Europe from the non-profitable levels of last year.

Although trade is still bad compared with the levels before 1976, British producers now believe that the British Government and the commission are determined to protect them from excesses of unreasoned cheap imports.

The latest issue to be raised with the Government by British steelmakers is the sales of cheap Italian steel into Britain by the small northern Italian companies, known as the Bresciani.

Talks are in progress between the Government and the commission in Brussels towards limiting this trade, either by EEC action or by a unilateral British move.



Mr. Tony Boyden (centre), campaign organizer of the British Industry 1500 Club, with the Lord Mayor of London, Sir Peter Vannock (left), a vice-president, and Sir John Methven (right), who has accepted the presidency of the club.

Glasgow winner of yacht race

TERENCE BROWN, a Glasgow accountant, won the 1978 Tomatin Trophy series in his new quarter-ton yacht *Fiskery* at Tarrbert, Loch Fyne, with a score of 781 points. He beat into third place the reigning champion, Nick Stratton.

Stratton, in his new half-tonner *Just Dinn*, chalked up 511 points to win the Scottish half-ton championships.

Clash as Heathrow extension inquiry opens

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

SHARP DIVISIONS of opinion over the necessity for the proposed fourth passenger terminal at Heathrow Airport emerged yesterday when the public inquiry into the plan opened in London.

Lord Silsoe, QC, for the British Airports Authority, argued that the proposed £50m. terminal would be "a vitally important part of this country's transport system," without which there would be a shortfall of airport capacity to handle the expected growth of traffic in the 1980s.

But lawyers for the opposition, including various environmental groups representing the area around Heathrow, argued that the proposed terminal should not be permitted until the Government itself has clarified its long-term strategy for airport development in the UK and especially in the South-East of England.

The inquiry has been called by

the Department of the Environment because of the considerable concern the proposed fourth terminal has generated. The British Airports Authority wants the terminal by the mid-1980s, so as to increase the capacity of Heathrow from the present 30m passengers a year to 38m.

The inquiry is being presided over by Mr. J. Gidwell, QC, with the assistance of two assessors, Mr. Robin Goodison, former deputy chairman of the Civil Aviation Authority, and Mr. J. H. Charter, a principal planning inspector in the Department of the Environment.

Planning bodies

There are over 400 objections to the proposed terminal, including local authorities, residents' associations, environmental groups and individuals.

As a result, the inquiry is expected to take several months and is not likely to complete its

work until the mid to late autumn.

The first three days of the inquiry have been set aside for the opening statements of the various parties, including the airports authority and the planning bodies involved.

But the broad shape of the inquiry has to emerge yesterday, with the sharply contrasting views of the various parties.

Lord Silsoe, for the airports authority, stressed that the authority regarded the proposed terminal as essential. The available capacity at Heathrow, Gatwick, Stansted and Luton would cease to be sufficient between 1982 and 1985, while some elements at Heathrow would be superseded earlier.

There is no way in which the expected shortfall in capacity can be met without the provision of a fourth terminal," he said. "The failure to provide the terminal would be detrimental to national interests and the interests of

Powell warning on 'lost power'

By Rupert Cornwell, Lobby Staff

DIRECT ELECTIONS to Europe were an open acknowledgement of the end of Britain's nationhood, and would reduce the status of the country within the Community to that of the West Midlands inside the U.K., Mr. Enoch Powell said last night.

The Ulster Unionist MP for South Down, returning to his favourite anti-market theme, argued that as a result of EEC membership, Britain had already lost the power to run its own trade policy, its own fisheries policy, and its own agricultural policy.

Britain's existence as a "collective entity" was now the central point at issue.

Mr. Powell told the Federation of Susssex Industries that even if the fundamental political drawbacks to membership were laid aside, the economic case was itself inconclusive. He implicitly suggested that unquantifiable "quality of life" considerations also favoured Britain pulling out of the Community.

Supreme issue

Attempts to measure such concepts as the standard of living and economic growth ignore many factors, he said. "Aspects of life, even of the individual's life, which he values more highly than some of the ones which can be measured."

The question of British membership of the EEC was the supreme political issue of the time. "That is not to say that it is party political," he declared. "Sometimes it is, and sometimes it is not. But it can never be answered other than politically."

Midland raises personal loan interest rates

By Michael Blenden

AN INCREASE in interest rates on personal loans was announced by the Midland Bank yesterday.

The increase follows similar moves by NatWest, Westminster and Lloyds, reflecting the recent general rise in the level of short-term interest rates. Since the Budget, the banks' base rates for overdrafts leading have gone up by 21 per cent to 9 per cent.

The effective interest rate for new personal loans at the Midland from today will be equivalent to 16.7 per cent for a two-year loan. This compares with 14.7 per cent previously, and is equivalent to a flat interest rate on the initial amount of 81 per cent.

London and the South-East.

Opponents of the terminal, however, expressed fears that it would not necessarily mean the end of expansion at Heathrow. A case for an eventual fifth terminal could be made out on the same grounds—that there would be chaos without it.

Roadworks

Moreover, the fears extended to the effects of a terminal on the surrounding road, and it was urged that the terminal should not go ahead until the M25 motorway and other major roads were completed.

At one stage, the objections case was applauded by the public in the hall, but Mr. Gidwell asked for silence and stressed that "expressions of enthusiasm or lack of it for what a speaker has to say is not a matter which should be a part of the inquiry which is to be held."

The inquiry continues today.

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Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

TEXTILES

Micro gets it sewn up

LATEST conquest of the microprocessor is the industrial sewing machine. Later on this year, the Singer Company will be introducing a model that will be likely to have a dramatic effect on the rag trade.

Known as the Programmable Centurion, the machine is the outcome of a project in custom MOS design undertaken for the company by AMI Microsystems.

Its main effect will be that the operator will not have to remember complicated work sequences. As soon as the machine has been used once in the prescribed manner, the program is stored in random access memory; from then on the operator (or any other operator) simply has to guide the material and hold the treadle down.

For garment industry managers, the machine means that instead of giving lessons to operators, the sewing machines themselves will receive the training, countering staff turnover and training cost problems.

Regarding complexity, the machine remembers up to 50 jobs and repeats them flawlessly at speeds up to 100 stitches per second.

It sews the same number of the same type of stitches at the same speed as the operator from which the procedures were memorised, stopping at the same points for the same length of time to allow for a change of direction. It lifts the needle, or leaves it down, as learned and it starts and ends the sewing sequence with the appropriate backstitch to secure the stitches.

As the operator becomes more proficient in guiding the fabric, the speed of any portion of the cycle can be increased without affecting the rest of the program.

Three AMI chips are involved. One of these is the processor itself, which controls and oversees the complete program. It counts stitches and measures time periods and machine speeds, putting the selected program from the memory (RAM) and employing an operating system resident on read-only memory (ROM). A second chip, an "interrupt" unit, deals with the flow of signals through the electronics circuits, while a third is a touch pad interface chip located in the operator's control console on the top of the machine. The touch panel with associated lights is used by the operator during the programming work.

The machine has several modes of programming and operation. In "auto learn" for example, it simply learns what the operator has done, and in "auto sew" will play it back exactly.

But in "control sew," although the detail played back is the same, the operator has control of the treadle, the delays, and therefore the overall machine speed.

In the "key learn" mode the machine will only learn the actions, not the times; maximum speed and the exact delays are pre-set. There is also a manual setting in which the unit becomes a conventional sewing machine.

Other modes take care of basic machine setting up, repair (in the event of a problem during sewing) and the possible need to abort a program for any reason. AMI points out that although there are other sewing machines on the market offering electronically controlled operations, Centurion will be the only one to capture data, with programming for, rather than simply by the operator.

More on 0793 31345.

HAND TOOLS

Easier to cut to shape

TWO thermocutting tools, called ZTS 20 and ZTS 21 and made by the Welwyn Tool Company, have electrically heated blades for speedy and accurate cutting of rubber and plastic sheet, foam, foil and cloth.

The tools do not stress or cause cracks to form along the cut edges, says the company, as the heat seals the ends of the sheet, thus preventing fraying.

Consisting of a handle and cutting head to which may be attached a wide range of blades (hooked blades for sliding through carpet, a notched side cutter for trimming excess plastic waste from moulded or

diecast parts and a pointed blade for describing intricate shapes plus extra-long blades for sheet materials up to 50mm thick), the tools are powered by a 120-V infinitely variable mains transformer.

There are a number of special attachments for plastic foams, including a variable loop holding device for internal shaping and a hollowing gun. A freewheel attachment and bench for mounting the cutter can be supplied and this enables materials up to 80mm thick and 270mm wide to be handled.

Further from the company at Stonehills House, Welwyn Garden City, Herts.

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ELECTRICAL FITTINGS

Progression of the dividend on a capital increased by 20%

On April 22, 1978, the Board of Directors approved the accounts for the financial year 1977

(in Frs million)

Consolidated Accounts (1)	Frs. 1,033.2
Total turnover amounted to	Frs. 176.8
Against Frs. 162.7 million, an increase of 17%	Frs. 78.2
Operating profit amounted to	
Fr. 25.8, compared with 1976	
Operating profit after tax totalled	
Fr. 19.2, compared with 1976	
Including:	
- A net appreciation on a lease-back transaction for Frs. 26.2 million	
- A provision for foreign investment on behalf of PIAL for Frs. 21 million	
If one does not take into account these two exceptional operations, the profits reached	
An increase of 29.4% compared with 1976	Frs. 59.5
Cash flow after tax totalled	Frs. 138.2
An increase of 39% compared with the preceding year	
As for the sales on foreign markets, which totalled	Frs. 227.2
The increase reached 34%. The share of these sales in the total turnover increased from 18.2% to 22%	
(1) Excluding new subsidiaries: PIAL (Brasil), WEG (West Germany), MPE (Austria)	
Parent company Legrand	Frs. 562.1
Pre-tax turnover totalled	
An increase of 16.2% over the previous year	Frs. 129.9
Operating profit amounted to	
An increase of 32% compared with 1976	
The net accounting profit, taking into account the exceptional items mentioned above, totalled	Frs. 60.7
An increase of 65.3%	
If one does not take into account the incidence of the lease-back operation on lease-back and the provision for investment in Brasil, profits reached	
An increase of 15.4% compared with 1976	Frs. 42.0
Cash flow after tax totalled	Frs. 108.5
An increase of 31.7%	
The Board of Directors also decided	
To call the Annual General Meeting on June 28, 1978	
To propose the payment of a dividend of Frs. 24.50 on a share, increased by the distribution of one bonus share for every five old shares held in October 1977, compared with Frs. 11.30 the previous year. This dividend will be made payable from July 3, 1978	
To call an Extraordinary General Meeting the same day, to increase the capital by issuing 8,000 new shares, with the view of increasing the capital by renouncing shares. These shares, once the shareholders have renounced their subscription rights will be subscribed by a Common Fund created in the frame of a Company Savings Plan	
In March 1978, Legrand S.A.'s sales were up by 4.6% compared with the sales for the fourth quarter of 1977, compared with the first quarter of 1977, they showed a decrease of 1.1%. However, the Group's sales progressed well. Since last February, orders registered showed a slight improvement in the trend.	

MATERIALS

A non-move surface

A HIGH relief, high build, elastic textured finish, called Monolastex, which can be applied internally or externally, with exceptional adherence to virtually any substrate, is the claim of Liquid Plastics of Preston.

It can be applied by brush or spray, says the company, a single coat giving long-life protection, hiding defects and enhancing appearance. It cures to a fine textured finish or, alternatively, a variety of special textures effects can result from a simple roller treatment to the applied film whilst still wet.

The manufacturer says that usual self-textured coatings tend to give a low gritty relief that chips or flakes, especially under substrate movement, but its product eliminates this possibility. It also combats the danger of blistering and subsequent rupture of the skin through moisture being trapped in the substrate—a common reason for failure of ordinary finishes.

The elasticity of this coating in five colours, mist grey, light green, light blue, magnolia and pale lemon, as well as white, cures to a silk screen, aging to a full matt.

Further from the company at P.O. Box 7, London Road, Preston PR1 4AJ.

HANDLING

Dump trucks are quieter

THE FITTING of a noise suppression pack that can cut noise output by up to 10 decibels—to levels well within the toughest British and European standards—is a feature of Aveling-Barford's biggest-selling off-highway dump truck.

The company has developed the pack for its Centaur 50, a 50-ton capacity dump truck used extensively in open-pit mining, quarrying and construction projects around the world. It meets the stringent new noise limits being set by the National Coal Board for all site equipment and, says the company, achieved outstanding results in a series of tests under the new NCB procedure.

No additional maintenance is said to be necessary for the noise pack which is available in kit form and can be fitted during machine assembly or added to machines already in the field.

More from the maker at Invicta Works, Grantham (0476 67351).

Safer for operators

ONE OF the prime features of an electrically powered pedestrian controlled die handling machine is the safety of the operator.

Thus, the machine, CTS 18, has full wheel protection to prevent it being driven across the operator's feet; automatic safety reverse (eliminating the possibility of a man being trapped by his machine in a confined space); anti-finger trap protection; and guard against moving machinery on the hydraulic lift in the form of a full length transparent plastic screen.

Further from the company at 1281, Stratford Road, Hall Green, Birmingham. 021 777 9761.

هكذا من الأصل

INSTRUMENTS

Taped data translated

HIGH RESOLUTION satellite NOAA5 (the American National scanning radiometer images of Oceanic and Atmospheric the UK and surrounding areas (Administration) weather satellite ever since. The project is of particular interest to meteorologists and oceanographers—being produced on a regular basis by the Electrical Engineering Department of the University of Dundee, on environmental sciences project the SE7000A high-performance instrumentation tape recorder supplied to them by SE Labs (EMI).

Dundee started the service—signals are recorded on the 14 still the only one provided in the UK—just two years ago. They have used the SE7000A for continuously recording data from TW14 OTD. 01-890 1477.

Versatile recording

PUT ON to the market by Gulton the user. Sturdy coaxial stylus International is an oscillographic recorder with a response up to 140 Hz and a capacity of two, four, six or eight channels.

All models have an eight-speed push-button selection chart drive, with speeds from 0.5 up to 100 mil/sec.

Writing is by thermal stylus on heat sensitive rectilinear grid chart paper, and automatic heat compensation in the stylus maintains a constant trace density whatever the speed of the pen. The trace density can, however, be adjusted to suit

More from Technitric Europe, Gulton International, Old Shoreham, Sussex, BN3 7EY (0273 778401).

Easy check on rust

AVAILABLE FROM Morgan Berkeley and Co. is an accurate diver-held voltmeter which is able to monitor the corrosion and cathodic protection potentials on submerged offshore structures.

Made in the form of a gun, the unit has a digital display at the rear which shows either cathodic protection (if the surveyed structure is so protected by a sacrificial anode or an impressed current system) or corrosion potential relative to a built-in silver/silver chloride electrode.

A hardened cone tip (which will penetrate coatings) is used to contact the structure and the reference electrode is positioned on the gun body 100 mm from the structure surface and is surrounded by a shroud which ensures a well defined and constant sensing area.

The internal electronics are driven by nickel cadmium batteries and frequently a full survey can be carried out in a single hand-held dive.

More from the company at Moorside Road, Winchester, Hampshire SO23 7SF (0962 89822).

IN BRIEF

The UK section of the International Solar Energy Society is to hold a one-day technical meeting on Wednesday, July 12. Solar thermal power generation is the theme of the discussions which will take place at the Royal Institution, 21, Albemarle Street, London, W1. Further information from UK-ISES, 19, Albemarle Street, London, W1 (01-493 5601).

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HEATING

Watches the flames

A SYSTEM for supervising continuously operating boiler burners in industry has been introduced by Landis and Gyr of North Acton, London, which claims it is the first to receive approval from the Gas Council.

Comprising a flame guard and flame detector, the system is called Detactozr and can be used for supervising oil burners, gas burners and dual-fuel burners, and also with manually operated burners. In combustion plants where heat production must be maintained, an active redundancy circuitry can be achieved in the event of failure of the flame supervision controls, says the company.

Full details on 01-993 0611.

Laboratory burner

SIMPLE to operate and needing no special training, is a portable laboratory burner with its own energy source, called Labozar.

Introduced for use through the medical field, pharmaceutical and veterinary surgery and for dental mechanics, opticians or soil analysis, there are three component parts—a chromium plated brass burner fitted with perforated stainless steel head, a jet/tap unit and a pressed steel body which houses a butane cartridge.

The burner weighs 500 grammes and measures 19 cm by 9.9 cm. With a burner off-take of 60 grammes an hour at an ambient temperature of 20 degrees C it gives approximately 34 hours burning time from the disposable C200 cartridge.

More from Campine Gas (GB), 126-130, St. Leonards Road, Windsor, Berkshire. Tel: Windsor 550117.

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THE JOBS COLUMN

How to pick the people who can do the work

BY MICHAEL DIXON

READERS acquainted with America will know there was nothing hollow about this column's early warning that use of generally stated educational gradings as criteria for job selection is potentially illegal in the U.K. I refer to "qualifications" such as five pass grades at the Ordinary level of the General Certificate of Education, two at Advanced level, or a degree.

These can easily be shown to be held by a significantly smaller percentage of, say, the West Indian community than of the population at large and, very likely, by a smaller share of women than of men.

Consequently the use of such gradings as employment criteria is open to challenge as indirectly discriminatory under the equal opportunity Acts covering race and sex.

To refute the challenge, the recruiter would have to show how these criteria were relevant to the successful accomplishment of the work in question. And even if—in that filing cabinet right over there—have some sort of question.

Besides, becoming involved in such a challenge with a determined and scrupulously inflexible plaintiff, would surely imply litigation of a length that

subject and, although less clearly, with the Board controlling the examination. Degree awards also plainly vary in difficulty with subject and evidently with university as well. So "five O levels" and such like cannot signify a standard attainment of anything.

Facing a challenge a recruiter might, I suppose, argue that the criteria were relevant, not to the work, but to success in some college-supplied course of training that was relevant to the work. But a determined challenger could then surely demand to be shown how the training course was essential to adequate job-performance and how the criteria were relevant to the training course.

Metaphysics

In the end the recruiter might win the argument, especially if assisted by a saucy metaphysician. But there do not seem to be many of those around (for example, I can't lay my hands on anyone to explain how Epicurus and his gang decided a thing's appearance must be estranged from its essence—which is much the cabinet right over there—have some sort of question).

Besides, becoming involved in such a challenge with a determined and scrupulously inflexible plaintiff, would surely imply litigation of a length that

would set the average lawyer polishing his spectacles in avaricious glee.

Bewildering goings-on of this sort follow naturally from the sort of selection procedure that leads to more discrimination by class and so on until one is morally obliged to have a separate Act and attendant bureaucracy to guard against unjustified discrimination by anything.

Should readers still need convincing that every employer ought to institute a radical review of selection procedure, they have only to take a look at developments in the United States, which is a bit farther along the slippery slope than the UK has slithered so far.

The Police Bureau of Richmond Virginia, for instance, has apparently now been forced to concede that its staff shall not be assessed for promotion by any direct employee of, not just the bureau itself, but the whole city corporation. As a result, \$85,000 is being spent on assembling and training around 35 external assessors to run the cops over the promotion hurdles under the direction of an independent company called Psychological Consultants. And

thereby hangs a series of coincidences.

Psychological Consultants' chief executive is Professor Bob Filer of the University of Richmond. And I met him last week. And he happened to have sold the company to the Inbucon consultancy group. And it happened to be holding meetings of senior manpower managers in its London headquarters, to discuss systems of selecting people for recruitment and promotion which will probably remain legal under the equal opportunity Acts.

More effective

Happily, the systems—known in the jargon as assessment centres—also promise to be more effective than traditional methods in identifying people who are actually capable of doing their job well. The best illustration of the principle was supplied by Inbucon's own selection of Ray Jeffery, in the following words:

"If you want a good cricketer, you don't call for candidates' educational certificates or give them psychological tests or have them interviewed by a personnel officer. You send a skilled observer who knows the game to watch them playing cricket." Hence the assessment-centre procedure, which starts with analysis of the work involved

in a particular managerial-type post, to determine which abilities are more or less required for success. The analysis is converted into a list of "dimensions," for example:

"Leadership. — Effectiveness in bringing a group to accomplish a task and in getting ideas accepted. Commands attention through respect and personal accomplishment."

"Planning and organising. — Effectiveness in planning and organising own activities and those of a group. . . ."

The next step is to design a series of managerially lifelike exercises during which candidates' behaviour will reveal their ability to measure up against each of the listed dimensions of the job.

Then one obtains a team of trained observers. Managers already in a company can usually be given sufficient skill in a week, I'm told.

The last step is to find some empty rooms, or book a hotel, and make the assessment centre happen. The observers watch and note the candidates' performance in the exercises over a couple of days. The observers then get together to decide who is most suitable for appointment or promotion. Where appropriate, the conclusions can be discussed with the can-

didate with the aim of determining each individual's needs of training.

Like virtually everything else, of course, the assessment centre system is capable of being used stupidly.

If, for example, the "dimensions" are drawn up so as to clone the jobs' present incumbents, instead of related to the employing concern's prospective development, the new system is likely to prove merely an extra-efficient means of hammering managerial nails into the corporate coffin.

"A business recruiting senior people needs to take account of its position in the market," said Len Brooks, Inbucon's managing director. "Say it's coming up against a period of static home demand, like the food industry is expecting. Then it ought to gear selection to whether it plans to diversify, expand overseas sales, or sit tight and reduce costs."

All the same, the new system offers a means to select by working ability, rather than by social acceptability to the established caste. Perhaps that is why, as Professor Filer said, President Marcos of the Philippines has downgraded his civil servants on to temporary appointments pending recruitment to permanent jobs by assessment centre methods.

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For a fuller job description, write to W.T. Agar, John Courtis & Partners Ltd., Selection Consultants, 78 Wigmore Street, London W1R 9DQ, demonstrating your relevance briefly but explicitly and quoting reference 2038/FT. This is an equal opportunity appointment. Replies will be treated in strict confidence.

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just selling a range of funds, but advising on their individual relevance to investors, making allowance for all their personal circumstances.

To be considered, you should have an understanding and experience of both investment management and marketing. This could have been gained in a similar organisation, stockbroking, or banking.

The terms are very attractive, including profit sharing, and reflecting specific experience, and there are excellent prospects of further promotion.

Please contact Peter Wilson, F.C.A., in strict confidence, at Management Appointments Limited, Albemarle House, 1 Albemarle Street, London W.1. (Tel: 01-499 4879).

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The group has manufacturing and marketing interests in both the UK and overseas and has close links with a major European organisation. It is now at that size where the Group Financial Director must appoint a senior executive to help him if the plans for future growth are not to be held up. Emphasis will be on taxation and investment analysis but the post will also cover cash management, budgetary control and monitoring of results from subsidiaries. It represents an excellent opportunity for the ambitious man or woman to join a growing organisation with the possibility of promotion later on. Applications are invited from chartered accountants, aged 30-40, holding a degree in Commerce, Economics or Law. They must have a broad knowledge of Commercial and Tax Law with

experience in investment analysis. An understanding of manufacturing industry gained from within is essential. The head office is in the North West and generous help will be given with removal costs if necessary. Salary will be negotiated to attract the right person and a car is provided.

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A well known and profitable British public group is an acknowledged leader in its specialised field of chemicals. Turnover is currently in excess of £40m, and its product range has wide applications throughout manufacturing industry. The new post of Financial Controller is being created, with responsibility to the Managing Director for the continuous review of the financial management accounting and information systems used within the group, and for profit planning, internal audit, cash management and capital budgeting. This appointment requires an ACA or ACMA in his or her mid 30s who is thoroughly conversant with management accounting in its broadest sense and with the use of computers to produce accurate and timely information for top management. Relevant experience in a

technically based process environment is clearly important, since the task will involve introducing a common thread where a standard approach is unlikely to be appropriate for all subsidiaries. Earnings, including incentive will be of the order of £14-15,000 and other conditions are attractive. Location: London.

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Wardley Middle East is the merchant banking arm of The Hongkong Bank Group in that area. Based in Dubai, it operates throughout the Middle East, and in particular in those countries where The British Bank of the Middle East, another member of the Group, is represented.

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Applicants should write in confidence to:

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The job is based in Southern England and the remuneration package will attract candidates with the right international track record. If you feel that you can match this very exacting brief, please Geoffrey King, Managing Director, who has been retained to advise the company on this appointment. At this stage all approaches will be treated in the strictest confidence. Please quote reference MIE.

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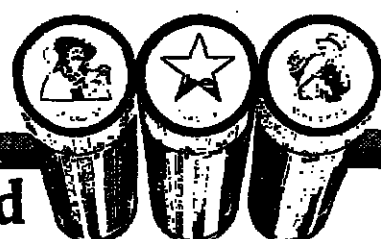
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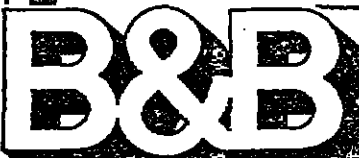
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Bleak outlook for UK economy in 1979

A GLOOMY outlook for the UK economy in 1979 after a brief recovery in demand and output this year is predicted by the National Institute of Economic and Social Research in its latest quarterly review, published today.

The balance of payments constraint upon re-expansion was not confined to Britain, though with floating exchange rates it was more difficult than it used to be for countries to reflate unilaterally because of fears about the impact of depreciation.

There was a need for a co-ordinated programme by all the major countries, with the

onus of adjustment on the surplus economies.

However, in any move there might be to collective reflation, the UK contribution will have to be judged in the light of the likely rapid expansion in real consumers' expenditure this year, and in the light of the UK's apparently chronic high demand elasticity for imports and the low elasticity of world demand for UK exports.

The institute warns that without a further fiscal stimulus, consumer demand will virtually cease to rise next year, private investment is likely to slow down and

public spending will continue to grow only slowly.

There was likely to be a slow increase both in unemployment and in the rate of consumer price inflation.

The appraisal section of the review, however, underlines the strong external constraints on a further stimulus.

It notes that in the longer run, the policy problems remain those of pay inflation and renewed stagnation of output in the face of a still precarious balance of payments improvement.

"The slackening of demand which we foresee in 1979 would seem to call for further

stimulus later this year, but any such stimulus would reverse the current balance surplus, with the risk of driving down the exchange rate further and exacerbating the rise in inflation.

"This means that even in a programme of collective world reflation, the UK could not go much further than it has done already without a significant effective devaluation; otherwise our trade balance (which is already, aside from oil, in chronic deficit) could well deteriorate further."

The review discusses the experience under a regime of floating rates. It was by no

means clear whether the implicit accommodation of differential inflation rates by a regime of floating exchange rates had exacerbated the general problem of inflation.

Nor was it obvious that the positive hopes for the floating rate system had been realised.

While noting the complications imposed by the 1973-74 commodity price explosion, the review says it would be hard to maintain that greater exchange rate flexibility and the supposed greater scope for fiscal and monetary policy have helped the industrial world to maximise employment and minimise inflation.

"While domestic inflation rates vary as widely as they still do, a high degree of flexibility of parties is inevitable."

"But the experience of floating is beginning to call for careful reappraisal, against the hoped-for day when differences in rates of domestic cost inflation become a good deal narrower than they now are."

To ensure that the rate of price inflation continues to slow down, 1979 increases in average earnings during the next year should be no more than half the 12 per cent rise assumed in the forecasts.

Angry hospital staff may gain worker participation

BY PAULINE CLARK, LABOUR STAFF

THE 900-BED Brookwood psychiatric hospital in Surrey, scene of a workers' council "take over" by disgruntled nurses and other staff, may become the first hospital to adopt a workers' participation system under the modified Bullock Plan outlined by the Prime Minister last week.

The plan is believed under serious consideration by the area health authorities after joint talks with union and staff representatives at the hospital about the need for improved industrial relations procedure there.

It is likely to be put to a mass meeting of hospital staff today, when local leaders of the Confederation of Health Service Employees, the dominant union at the hospital, make recommendations on the future of the present 12-member workers' council.

If the idea is accepted, the hospital will have made history in the health service which, ironically, was not mentioned in the recent Industrial Democracy White Paper.

The logical result would be setting-up of a permanent workers' participation committee at Brookwood, with union representatives joining hospital administrators in determining overall policy on running the hospital.

Area health authority representatives might take seats on the committee.

The workers' council was set up nearly a fortnight ago under the leadership of union representatives, including Mr. Joe Fleming, a charge nurse and secretary of the union branch.

The nurses have complained of "autocratic" management, and have presented a list of grievances to the health authorities, including criticisms of certain personalities in control of the running of the hospital.

Today's meeting is expected to discuss what form of inquiry should be set up to look into the problems, as proposed by Dr. Ivan Clout, chairman of the Surrey Area Health Authority.

Dr. Clout has welcomed the decision to set up a workers' council rather than take industrial action, which would have affected patient care.

The nurses have yet to publish their full list of grievances, but are known to have objected to certain instructions by management.

The authority of ward sisters is said to have been undermined, for instance, by orders concerning fixed tea breaks, which the nurses maintain have been without effect, and to the responsibilities of the nurse in charge.

The union has complained of sackings of nurses without the presence of a union officer.

Current account surplus of £300m predicted

THE SURPLUS on the current account of the balance of payments is expected by the institute to be much smaller this year than previously projected by itself and other forecasters.

A current account surplus of £300m in 1978 is forecast, with a steady improvement after the large first quarter deficit, compared with the £150m surplus projected in the review at the beginning of March.

This is the main change in the institute's forecasts in the last three months: the broad pattern is still of a brief and mild recovery this year, which will tail off by the start of next year.

The forecast is based on the assumption of unchanged fiscal policies, which now assume a change in income tax allowances in the spring 1979 Budget in line with the rate of price inflation.

The estimates also assume a 15 per cent rise in earnings in the current year, compared with a 12 per cent increase probable in the 12 months from this summer.

The institute believes that the general economic climate should be relatively favourable to pay restraint since living standards, as measured by real personal disposable income, will be about five to six per cent higher in 1978 than during last year.

The review notes the difficulties of defining exchange rate policy. But the forecasts assume that the rate will be supported at about its present level for the next six months.

After that, the expected downward pressures will be only partially resisted.

Consequently, the trade-weighted index should fall by about 62 in the second and third quarters to roughly 58 at the end of next year.

"Fairly strong" growth in private consumption and private investment is expected this year, partly offset by continued stagnation of public spending and by rather rapid import growth.

Real Gross Domestic Product is projected to rise by 2.5 per cent in this year compared with last, and by 1.8 per cent next year.

Payment imbalances key to slow growth

THE LARGE and growing rate of inflation in Japan had imbalances in the external payments of the leading industrial countries have generated considerable international friction and been an important cause of the slow overall growth of the world economy, the institute says in its report on international conditions.

The review comments particularly on the special problems

Discussions on future UK growth rate urged

A MORE intensive and public discussion of the varying views about the future growth rate of the UK is called for in a special article in the review by Mr. T. D. Sharkey.

Discussing medium-term planning in nationalised industries, he says that views range from the 4.2 per cent growth rate requirement in the Cambridge Economic Policy Group model, to the 2.1 per cent assumption made by some nationalised industries.

The reasons for the differences should be explored, and it would be useful to examine the effect of a higher growth rate assumption on the investment plans of nationalised industries.

The inquiry could also be usefully extended to large firms in the private sector to see whether the assumption of slow growth is a common one.

"The public discussion of medium-term economic projections has languished in recent years. This brief survey of the medium-term planning procedures in nationalised industries suggests that it is time for a revival."

The study highlights a dilemma faced by the nationalised industries. They remember their unfortunate experience of the 1960s when they were ordered by the Government to plan their investment on the assumption of a 4 per cent growth rate.

CHANGES IN MAIN COMPONENTS OF DEMAND IN OECD COUNTRIES	Percentages, annual rates in real terms			
	1965-75	1976	1977 (estimate)	1978 (forecast)
Consumers' expenditure	+4	+4½	+3½	+3½
Public authorities' current spending	+3½	+1½	+2½	+3½
Gross fixed investment	+3	+4½	+6	+4
Trade balance	—	+1½	—	—
Stockbuilding	—	+1½	—	—
Gross domestic product	+3½	+5½	+3½	+3½

faced by Japan as a result of its economic structure, and suggests that these tend to be underestimated in the West.

The small proportion of total domestic demand accounted for by public consumption, the special characteristics of the industrial structure and the low level of manufactured imports, made it difficult for the Government to alter the balance of the economy.

Greater aid from Japan to the developing countries could help to ease pressure on Japanese industry and its competitors in other industrial countries.

If this was combined with more effective economies in fuel consumption in the U.S., and a change of priorities in West Germany, "the outlook for the world economy might look a good deal less gloomy than it does now."

Growth of output in the indus-

Evolution

The industries are wary of repeating the experience of the danger of over-capacity.

On the other hand, "there may be a certain oddity about a group of industries in the public sector each coming to its own separate conclusion about the likely evolution of the British economy."

This involved possible duplication of effort, and the danger that excessive caution in these projections may become self-fulfilling.

If nationalised industries and large firms in the private sector plan on the basis of an expected slow rate of economic growth, then those plans could bring about a slow growth rate.

"Because the planning experiments of the 1960s were unsuccessful, it does not follow that there was no truth at all in some of the ideas which lay behind those exercises."

The expectation of a slow growth rate, need not make a faster rate impossible, but could make it more difficult to achieve.

National Institute Economic Review, No. 84, May, 1978, available price £2.00 for single issue from 2, Dean Trench Street, Smith Square, London SW1P 3HE.

Multinationals probe grant

MRS. JUDITH HART, Minister of Overseas Development, has approved a grant of £200,000 from aid funds to assist the technical co-operation programme of the UN Centre on Transnational Corporations over the next two years.

The centre, which studies the implications of the activities of multinational corporations, is at present financed by the UN Development Programme and by voluntary contributions from the Netherlands, Norway and Sweden.

The centre's work covers mainly advice to governments and information services.

Renault entry

RENAULT, widely estimated to be spending well over £1m in its efforts to win the Le Mans 24-hour race in two weeks' time, has unveiled a new, 233 mph Alpine V6 Turbo to head its six-car challenge against 1977 winner, Porsche.

The car, fitted with a 2.1 litre turbocharged engine, has been undergoing secret tests at Paul Ricard circuit in southern France and has been seeded in the 55 Le Mans entries. Backing it will be three less powerful 2-litre Renault Alpine V6 Turbos and two similarly-engined Renault Mirages, entered by an American team, which has close links with Renault.

The Le Mans race, in the Renaults during the early 1970s, has been revived by the intensity of the Porsche-Renault rivalry of the past two years. Renault, who view the race both as a promotional exercise and test-bed for long-term development of turbo-charged engines, will have an 80-man team at the Sarthe circuit.

INCOME TAX THRESHOLDS AND EFFECTIVE TAX RATES 1973/4-1977/8	1973/4 1974/5 1975/6 1976/7 1977/8				
	1973/4	1974/5	1975/6	1976/7	1977/8
Income tax thresholds (£m) evaluated at 1973/4 prices*					
Basic rate (34%)	1,116	1,097	942	980	1,065
Higher rate (40%)	6,116	4,912	4,003	3,982	4,250
Higher rate (48%)	21,176	18,098	14,583	13,017	12,223
Effective tax rates on personal income† (per cent)					
Income tax	13.2	14.6	16.1	16.1	15.0
Expenditure taxes	12.9	11.5	11.4	11.4	12.5 (12.0)††
Total	26.1	26.1	27.5	27.5	27.5 (27.0)††
Proportion of income tax in total personal taxation (per cent)	50.6	56.0	58.6	58.3	54.2 (55.3)††

* Applicable to a married person, income all earned, with two children not over 11. The reduction in child allowance in 1977/8 has been ignored. The threshold is that level of gross income at which the rate begins to apply.

† Income tax payments plus accruals: total allocation of expenditure taxes (including rates) to consumption: calendar years.

†† Excluding the national insurance surcharge.

trial countries "continues to lag behind their official targets slowly."

The current balance of payments of the OECD countries moving into overall surplus in 1979.

On the other side, the current surplus of the oil producing countries is expected to be reduced, while the deficit of the other developing countries will increase rapidly.

Total world trade, which rose in volume by 4 per cent last year, is expected to increase by about 5 per cent this year and by 6 per cent in 1979. There will remain "massive imbalances" between the countries of the OECD area.

In spite of the depreciation of the dollar in 1977 and the early months of this year, the institute foresees little change even by next year in the deficit of the U.S. and the Japanese surplus could well go yet higher even after the appreciation of the yen.

THE PUBLIC SECTOR FINANCIAL BALANCE, WITH HIGH EMPLOYMENT CORRECTIONS*, 1973/4-1977/8

Financial balance (£m)	Weighted budget (per cent of high employment Gross Domestic Product)				
	Actual	High employment	Balance	High employment	Change in high employment
1973/4	-3,411	-3,400	-9.3	-1.0	-1.5
1974/5	-5,933	-4,600	-10.3	-1.5	-0.2
1975/6	-6,259	-3,400	-18.4	-1.5	-0.2
1976/7	-7,387	-2,000	-26.9	-1.3	-0.3
1977/8	-7,387	-2,000	-26.9	-1.3	-0.3
Budget forecast	-7,577	-2,000	-27.9	-1.5	-0.4
Outturn	-5,762	-2,800	-20.4	-2.5	-0.6

* Estimated by taking calendar year 1973 as the "high employment" base and assuming an underlying rate of growth of productive potential of 2½ per cent per annum.

Threat to Llanwern after walk-out

BY ROBIN REEVES, WELSH CORRESPONDENT

IRON AND STEEL production at BSC's Llanwern works, South Wales, was halted yesterday by a dispute involving about 500 blastfurnacemen.

Unless resolved quickly it could lead to a complete shut-down of the plant which produces 400,000 tonnes of steel and steel products a week.

The dispute began when about 100 men working on Europe's largest blastfurnace—Llanwern No. 3—were laid off by the BSC management for working to rule after a rejected pay claim.

All iron and steel making at the plant was brought to a halt. However, there are sufficient supplies in the pipeline to maintain production in the finishing end of the works.

BSC's Llanwern works has a total labour force of 9,000, of whom about 6,000 are in manual grades.

The No. 3 blastfurnace has a capacity of 34,000 tonnes a day. It was commissioned in February, 1976, at a cost of £27m.

Meanwhile concern is growing among steel unions in South Wales that BSC is planning further redundancies at the nearby Whitehead, Newport, works.

Plans are reportedly afoot to close a relatively new steel bar mill at the works, which makes a specialty of specialist finishes products, because of the continuing depressed state of the construction industry.

Local steel union sources indicate that they intend to resist any such move strongly, on the grounds that South Wales has already had more than its fair share of steel job losses.

The Whitehead works employs about 1,000 men of whom at least 100 would be affected by a closure of the bar mill.

ACAS acting in Bank row

BY OUR LABOUR STAFF

OFFICIALS from the Advisory, Conciliation and Arbitration Service are due to meet representatives of the Bank of England and the Society of Graphical and Allied Trades today to discuss ways of resolving the dispute at the bank's sole printing works which has halted distribution of new bank notes.

The dispute involves about 300 women note examiners who together with drivers, binders and other groups, all members of SOGAT, have been dismissed by the bank for alleged breach of contract.

SOGAT said yesterday that the dispute arose because the bank began replacing its members by non-union workers in breach of the union's recognition agreement.

The union warned that all printing and distribution would remain halted until the sacked staff were reinstated.

The bank says SOGAT is trying to institute a closed shop in an area where half the employees are non-union members. It says it is working towards the organisation of an examiners' closed shop to be introduced "at an appropriate time."

Scorpion tanks moved after blacklist clash

BY NICK GARNETT, LABOUR STAFF

THE SCORPION tanks marooned at the Alvis factory, Coventry, line-breaching pay deal last year, has been moved to a new site after a dispute with the Government Defence contracts.

The company was told this last week, the day after it had moved two Scorpion tanks from the Alvis factory, part of British Leyland. A number of planners have been involved in the past in moving tanks from the factory.

The Ministry of Defence said yesterday that the back-log of Scorpions, about 12, was moved early last week, before Capel's case had much publicity.

Bank hours trial agreed

SCOTLAND'S clearing banks have agreed with the National Union of Bank Employees to open 16 main branches in the Glasgow, Edinburgh, Aberdeen and Dundee at lunchtime for a 6-month trial.

The experiment, which means that the branches will be open continuously between 9.30 am to 3.30 pm on weekdays, starts on Monday.

The union was unhappy about the proposal—by the Royal Bank of Scotland, the Bank of Scotland and the Clydesdale—and only agreed to co-operate where the banks accepted four conditions.

These were that all staff would continue to have a one-hour lunch break, that additional temporary staff would be taken on to maintain staffing levels between 11 am to 3 pm, that the working week would remain at 38 hours and that special attention would be paid to security over the lunch-time period.

Mr. David Paterson, the union's Scottish deputy general secretary, said that the experiment was "ill-conceived, ill-timed and ill-planned" but the union had agreed to go ahead in the public interest.

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JJ Ventilation Limited
13 Downy Square, Bristol BS8 4SL
Tel. Bristol 291295

A high-contrast, black and white photograph of a smiling woman holding a small bouquet of flowers. The image is framed by a thick black border with rounded corners. The woman has dark hair and is wearing a light-colored, possibly striped, shirt. The background is dark and textured, suggesting foliage or a patterned surface. The overall style is grainy and artistic, with a focus on the woman's expression and the flowers she is holding.

The delicious taste of ice-cream in Italy could well come from Bush Boake Allen — the Albright & Wilson company that is one of the world's leading suppliers of flavours and fragrances.

These flavours are supplied to the food industries of many countries to suit local tastes and ways of life – flavours for biscuits, savoury flavours for snack foods, spice extracts for sausages, fruit concentrates for soft drinks.

Albright & Wilson have manufacturing plants in 15 countries. In 1977 alone, overseas production resources were increased in Australia, Canada, France, Malaysia, Singapore, Sweden and the USA.

Worldwide, sales last year were £338m, of which £194m were earned overseas, including £92m exports from the UK.

Albright & Wilson Ltd. 1 Knightsbridge Green, London SW1X 7QD. Telephone 01-589 6393

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The right to choose

There are some people who believe that the advertising of certain products should be banned.

The current favourite for the attention of such people is the advertising of cigarettes.

Closely followed by that of alcohol.

But the list can be extended to the advertising of products made from animal fat.

Or of products that contain saccharine.

And even of products that pollute, and collide with each other, and put their drivers into hospital.

Those who believe in banning the advertising of such products would extend the list further.

All they need is time.

But there are others who believe that the citizen has certain inalienable rights in a free society.

The right to exercise free choice for instance.

And that this, by definition, must include the right to smoke.

The right to drink.

The right to eat dairy foods.

The right to drive.

The right to take the risks he knows about.

The right to measure those risks against the pleasure he gains.

And that, providing he exercises those rights with a sense of responsibility to the society in which he lives, no legislative assembly should seek to deny him access.

If that belief is well-founded, then the advertising agency, Allen, Brady and Marsh believes that free and honest trading of cigarettes, alcohol, dairy foods and motor cars should continue.

That, just as governments should be free to warn of risks, manufacturers should be free to advertise their products.

Of course there should be safeguards.

The health of the citizen should be protected.

But the health of democracy is also important.

President Hoover, in 1928, put it better than we could hope to do:

"Free speech does not live many hours after free industry and free commerce die."

The advertising launch of State Express 555 King Size cigarettes started on 24th May 1978.

Allen, Brady & Marsh is proud to be responsible.

ABM

ABM House Norwich Street London EC4.
Tel 01-405 3444

The Marketing Scene

EDITED BY MICHAEL THOMPSON-NOEL

Fighting abuse with self-control

BY MICHAEL THOMPSON-NOEL

THE FLURRY OF protests and Press statements with which London greeted the EEC Commission's draft directive on unfair and misleading advertising—published in March—has died down for the present, to be replaced by a mood of wariness which in one quarter, at least, is beginning to shade into qualified optimism.

That quarter is a very important one indeed, occupied as it is by Lord Thomson of Monifieth—chairman of the European Movement (the all-party, pro-EEC, lobby), chairman of the Advertising Standards Authority and previously one of the UK's first two EEC Commissioners.

Lord Thomson's views on the absurdity of European harmonisation for its own sake, and on the pleasureless joys pursued by the bureaucrats in their sleepless search for uniformity, have endeared him to the advertising and marketing communities in Britain.

Which is not to say he is incapable of turning round and administering a clip behind the ears when necessary. At the Advertising Association's conference in Brighton, Lord Thomson said he was encountering within the advertising business, dangerous misconceptions as to how advertising control works in Britain, plus a disturbing degree of complacency as to how the Brussels draft directive—which proposes uniform civil and criminal legal proceedings throughout the Nine to counter unfair and misleading advertising—can best be tackled.

More recently Lord Thomson told me: "I am now reasonably optimistic that we will get from Brussels an amended directive that will allow each country to preserve its own system of advertising control and still achieve the very worthy aims of the current directive."

He believes that the control of advertising in Britain—a mixture of statutory enforcement and industrial self-regulation via the ASA and its Code of Advertising Practice (plus the work of the IBA)—is sufficiently well-organised at present, and sufficiently successful, to be allowed to continue along present lines.

HOW "LEGAL, decent, honest and truthful" is British advertising? If the reaction of the public is anything to go by, it scores extremely well. The Advertising Standards Authority conducts a national ad campaign of its own each year, inviting complaints from the public. The 1978 campaign is running now (see inset).

The 1977 campaign began last August and ran for three months, enlisting the support of folk heroes like Marjorie Proops and Sir Matt Busby. It cost £150,000. In addition, a further £44,113 worth of free space was donated by the media.

According to ASA chairman Lord Thomson of Monifieth: "The evidence from the ASA's own operations certainly does not show any widespread grass-roots feeling among consumers that advertising is misleading."

Following the 1977 campaign, the number of complaints which came in for ASA consideration, over a nine-week period, totalled 1,592 against a background of something of the order of 4.5m ads published each week.

Of that number, 183 were complaints not about advertisements but about a failure to deliver goods ordered by mail. (Because such goods are bought as a direct result of an advertisement, the ASA has special responsibility for bringing such complaints to a satisfactory conclusion). Of the remaining complaints, 285 were found to be justified. This represents 18.5 per cent of all complaints received in the period but only 0.006 per cent of the estimated total number of print advertisements published during the nine weeks concerned.

"But there is no element of son: advertisers can't always be expected to anticipate some of the more ingenious complaints published last week. Lord Thomson warned that it was not only the bureaucrats in Brussels but ideologists at home who were out to tilt the balance of advertising control decisively in the direction of statutory enforcement."

In this connection it is easy to see why Lord Thomson believes the EEC Commission to be guilty of "pious hope" in believing that a much more overtly legalistic system of advertising control throughout the Nine would help introduce quick, effective and inexpensive legal facilities for combatting advertising abuse.

It would be a feast day for the sign of creative brilliance to sail would help introduce quick, effective and inexpensive legal facilities for combatting advertising abuse.

Are you legal, decent, honest and truthful?

Advertisers have to be.

The complaints which were upheld ranged from technical breaches of the Code and genuine over-sights to a very few intentionally misleading claims. A substantial proportion were concerned with questions of taste and decency: an area where self-regulation need fear no competition from the law.

Lord Thomson's remarks about complacency within the advertising business are also easy to understand, for while it is important not to exaggerate the degree of concern the citizenry at large harbours about advertising (matters of family, government and the trade unions rank way ahead of advertising in the neurosis league), it is equally clear that in many parts of the world the consumerists and other pressure groups are creeping up on advertising virtually from behind.

In a great many cases they are now within a stone's throw of their objectives. In Rome, the Swiss Parliament is debating whether or not to ban all tobacco and drink advertising. (In Britain, tobacco advertising may well be outlawed within five years and drink advertising strenuously repressed.) In Washington, singer Pat Boone, whose company, Conza Moore Inc., received 25¢ for every \$9.50 bottle of Acne-Statin sold as payment for his endorsement of the product, has agreed to a settlement holding him personally accountable for false and deceptive advertising—the forerunner of rigorous new endorsement standards now being developed by the Federal Trade Commission.

Brussels, the European Consumer Law Group has stated that in the absence of firm legislative control of advertising (which it favours), self-regulatory bodies should be required to operate under the aegis of consumer organisations and trade bodies. In addition, the group wants very special attention accorded advertising directed at the young, the elderly and the ill, as well as ads designed to help the sale of "harmful and hazardous products such as tobacco, alcohol, pharmaceutical products and sweets."

The list is endless. In a great many instances the moral case for more rigorously framed rules on advertising conduct and control seems to speak for itself. But there are many areas and instances where the rights of the advertiser need strong protection, too. In Britain, the advertising industry is fortunate that it has someone like Lord Thomson to chivy it along.

English Mustard this year... National Holidays, part of the National Bus Company, has given its £300,000 to Bastable Market Development... Trebor is putting its Sharps Extra Strong Mints into posters for the first time, via NSW Partners.

Extra Strong is said to have 25 per cent of the £40m pressed mints market... Brooke Bond Oxo is spending £250,000 on Dividend "D" in June. Dividend reportedly has 10 per cent of UK packet tea sales.

Consumers, consumerists, and pistachio nuts

TALE OF THE MACABRE No. 1: In the U.S. recently, the Food and Drug Administration decided to crunch its teeth on that Ferris Coffee and Nut Company of Grand Rapids, Michigan, writes Michael Thompson-Noel. For why? Partly, it seems, because the federal agency was concerned that the firm's mixed nuts failed to comply with the FDA's food standard because the product label did not bear the words: "Mixed nuts." The agency said the label failed to indicate that the product contained up to 60 per cent, cashews and that the optional nut ingredients were not declared in descending order of predominance. The FDA criticised the lack of a net quantity statement on the label and the failure to declare the presence of pistachio nuts. The FDA told the company that the zip code in its address was omitted from the label and that use of the term "P-Nut Oil" was not an acceptable phrase for declaring peanut oil as an ingredient.

Tale of the macabre No. 2: In Washington, two weeks ago, Sen. Wendell Ford of Kentucky scored the first victory in an announced attack on red tape by amending the National Traffic and Motor Vehicle Safety Act to eliminate an obscure provision requiring retrofitted car tyres be registered with the U.S. Government. Since 1971, some 63m tyres have been registered. But during that entire period a total of only eight tyres were recalled, at an average estimated cost to the registrars of \$3m annually and that "a substantial portion of the cost is unnecessary." Regulatory requirements imposed at federal, state and local government level are adding between \$1,500 and \$2,500 to the cost of the average new house. Accord-

ing to Mr. Joseph, approximately \$10bn of new private capital spending is devoted each year to meeting mandated environmental, safety and similar regulations rather than being invested in new projects.

General Motors says it costs it \$3bn (plus the full-time efforts of 22,900 employees) to comply with auto emission and safety regulations. The Dow Chemical Company says the impact of federal regulatory costs on its U.S. operations alone is costing \$186m annually.

According to Dow Chemical's president: "Ultimately, the consumer ends up paying for these costs, which really amount to a mandated hidden tax on consumers." According to Mr. Joseph, the problem is growing in all dimensions, although an is aware of the problem. "It is my hope that this sort of awareness will spread to all government agencies generate aggressive solutions to possible problems without first attempting to measure the cost."

During the seminar's lunch lull, Gordon Borrie, the UK's Director-General of Fair Trading, expressed the opinion that consumerism had become the whipping boy for everything that business and commerce found unpalatable, on whatever front.

But the mood now, both in Britain and the U.S., is that the consumerists have to date enjoyed an overkill of rhetoric. As Harry Shepherd of Marks and Spencer said last week: "The choice I would like most to argue for is the choice between benefits and costs—a choice not yet offered to consumers perhaps because while the benefits are well publicised, the costs have been apparently difficult to estimate."

The Alliance changes tack

THE TED BATES AGENCY, enough. Total MEAL-type spendings by the societies in 12 months to March 31, 1978, was £9.94m. The biggest spenders were Abbey National (£1.3m), Halifax (£1.1m), Leeds Permanent (£530,500), Nationwide (£1.2m) and the fun-loving Cadbury Typhoo's new instant milk product, and the £2.5m launch for Mars' new Banjo chocolate snack bar.

One of Bates' losses was the Alliance Building Society, siphoned off by Doyle Dane Bernbach.

Farly because the societies offer such comparable services, the return on their advertising investment is relatively easy to evaluate. They certainly spend

work for the Alliance is that it was dull. The ads showed general manager Roy Cox explaining precisely what services the Alliance offered and how investors could count on good rates of interest, security and personal service—a strikingly different approach to the jingles and jokes and bikini tops paraded by the Abbey, the National, the Leeds and the Woolwich, for example.

"We want to retain the serious approach," says Roy Cox, "because we want to achieve much more than awareness. At the same time, we want a new creative approach, a new style and personality."

Pan Am raises hackles

PAN AMERICAN World Airways' decision to fire Ally and Gargano and instigate a competitive scramble for its \$32m account has stirred tempers in the U.S. Earlier this year Ally and Gargano lost its \$12m Fiat Motors business and has now been forced to sack an estimated fifth of its staff. Ally and

Gargano handled Pan Am's hopes, their dreams. They have domestic business worth \$12m; just made it painfully clear that they don't care at all.

The A&G head, Carl Ally, received 48 hours notice from Pan Am. He was at a funeral at the time.

Pan Am says it wants a single agency to handle its account "that cares about people, their comfort, their safety, their world-wide. JWT reportedly has

the inside rail. Its 14 rivals include McCann-Erickson, Ogilvy & Mather, SSC&B, Ted Bates, D'Arcy-MacManus & Masius, and Needham, Harper & Steers. A decision is expected by late July.

● Campaigns and Accounts: "C'mon Colman's light my fire." is the phrase employed by a scantily-clad nymph on a tiger skin in the first of a series of three new ads devised by JWT for Colman's English Mustard. She is chomping a chicken leg. Colman's is spending £400,000 on

LORRY DRIVER'S MATE, M.P.

Take a closer look at the man delivering industrial gas cylinders—he may be your M.P.

British Oxygen is one of thirteen companies participating in the Industry and Parliament Trust, a scheme which aims to increase Parliamentarians' awareness of how British industry works, by allowing M.P.'s to see things at first hand.

There is much for them to appreciate.

Product design, labour relations, business systems, sales training, production management, research programmes, employment practice—the list is endless, embracing all those technical, economic, political and legal factors affecting the competitive performance of industry in today's highly complex society.

For our part, we commend the M.P.'s to a weekly copy of The Engineer. There is no better starting point for an appreciation of how British industry works, solves its problems and creates its opportunities. A year's issues add up to a history-in-the-making of industry—a continuing narrative of fact, opinion and debate, charting events, ideas, relationships—tracing all the major influences on the direction of industrial change and growth.

And it is as stylish, lively and readable now as it was 120 years ago.

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Thursday June 1 1978

Uncheerful outlook

THE NATIONAL INSTITUTE'S official expectation which has latest Review presents what is, in its own words, a gloomy picture of the economic outlook for the UK in the rest of 1978 and, more especially, in 1979. The picture would probably have been more gloomy still if it had been painted in the light of the latest information available. In the first place, the NIESR estimate of capital investment in industry might well have been revised downwards if its forecasters had been able to take into account the sharp drop in the official statistics of expenditure in the first quarter. The high level of investment intentions in relation to the likely growth of output has puzzled many observers: the whims better with forecasts based on past experience and with the growth of pessimism about business prospects reflected in recent surveys made by the Confederation of British Industry.

In the second place, the National Institute sets the scope for UK government action to improve the outlook firmly in an international setting. It will be strictly limited in any case, but it will be very small indeed unless the leading industrial nations can agree on concerted action to achieve a faster rate of world trade and growth. This forecast seems all the gloomier for being published at a time when the Economic Policy Committee of the OECD seems to be demonstrating that its members are more united on principle than on any course of practical action.

The dilemma

The dilemma which the National Institute (and it is not alone in this) finds itself unable to bypass is the difficulty of maintaining a faster rate of growth without stoking up inflation or worsening the balance of payments. This year, indeed, it foresees a "brief recovery" in demand and output led by higher consumption and investment. But the growth of GDP this year is put even on slightly dated assumptions, at only some 31 per cent, with unemployment levelling out only slightly below its present level.

The balance of payments is expected to improve (as, in fact, it already has) from a poor first-quarter average but to produce a current surplus for the year only half the size of an

official expectation which has itself been halved. The balance should be better in 1979 on unchanged policies, but this goes for the industrialised countries as a whole and largely at the expense of developing countries with no oil resources. The balance of payments is almost the only feature of the economic situation which the Institute expects to improve without intervention during 1979. Consumer demand will virtually flatten out, especially if the savings ratio recovers from the expected fall. The rise in average earnings will fall only from 15 to 12 per cent. In the next pay round—twice as much as needed to keep inflation in single figures—and will work with a slowly-depreciating exchange rate to push the annual rate of inflation next year back to 11-11½ per cent. GDP will grow by only 1½ to 2 per cent next year, and unemployment will begin to move slowly up again.

Bonn summit

The main reason why the National Institute does not, in these circumstances, recommend unilateral UK action to maintain the growth of demand is our high propensity to import. A further stimulus of consumption would probably cause a sharp drop in the expected balance of payments surplus (which itself depends on North Sea oil) unless there were a deliberate drop in the exchange rate; and either course would tend to push inflation higher still. From a monetarist point of view the prospect is slightly worse than this. Although the National Institute believes that the Government can meet its monetary targets with the help of some further rise in interest rates, its calculations imply a growth of Domestic Credit Expansion even in 1978-79 which is considerably faster than the commitment to the International Monetary Fund.

The UK, in short, is and must remain an economy particularly dependent on the state of world trade and business activity. Whatever minor disagreements there may be about specific forecasts, nobody can quarrel with the conclusion that domestic economic policy will be circumscribed in 1978-79 by the degree of success reached at the Bonn summit meeting in July. And that in itself, as the markets noted some time ago, has implications for the timing of the next general election.

The rewards of productivity

BETWEEN 1963 and 1973 the chemical industry in the U.K. increased its output per head by 8.7 per cent a year, the productivity growth within industries. The earlier study showed that 50 per cent of the total growth of labour productivity in 1963-73 was associated with shifts of employment between industries. The results for 1954-1973 show that while labour productivity grew by 117 per cent, only 10.3 per cent was due to employment changes. This may reflect the greater obstacles to labour mobility which have grown up in the past twenty years and which have been reinforced by recent legislation.

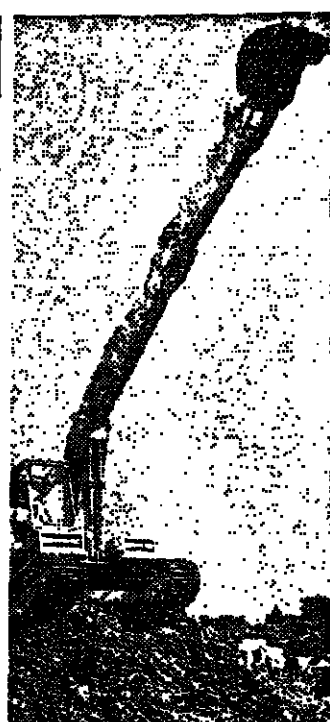
The new study confirms that the level of capital investment is not the primary determinant of labour productivity. Only 27 per cent of the differences between industries in labour productivity growth can be explained by inter-industry differences in the growth of capital per head. "It would appear," the authors say, "that increased efficiency in the use of existing capital and labour contributes just as much to raising productivity growth as the addition of new investment. This does not mean that increased investment is unnecessary but that the full benefits of this investment will not be attained until changes in practices and methods of production raise all-round efficiency."

Employment

The study shows a general tendency for industries either to do well on all measures of performance or to do badly: industries with above average growth of labour productivity also experienced above average growth of output and employment and below average growth of labour costs and prices. But the statistical correlation between productivity and employment growth is apparently much weaker than in the period between 1924 and 1950. For which a similar study was undertaken some years ago. The earlier study found that industries with the highest levels of productivity growth also experienced the highest rates of employment growth. No such relationship was found for the 1954-73 period, although the later study provided no evidence that productivity growth leads to a general decline in employment; while this may be true of particular sectors, it is not true for all industries. Another interesting difference

Attitudes

A greater willingness to accept these changes, and greater labour mobility, are two of the necessary conditions for an acceleration of productivity growth. But how are these changes of attitude to be brought about? One small ray of hope is the finding that industries with above average productivity growth also achieve higher than average increases in earnings per head. In this differential can be enlarged, despite trade union pressure in the opposite direction, the outlook for productivity will be a good deal brighter.



Construction equipment: hard dig out of recession

By KENNETH GOODING, Industrial Correspondent

THERE WAS an atmosphere of desperation among the European manufacturers of construction equipment who gathered in Paris last week for a major international exhibition. They face so many problems and have suffered so severely during the recession that finding something positive and optimistic to report gave them great difficulty.

But the French came to the rescue. They were able to point to the results of some recent work they commissioned from the BIPE market research organisation. It concluded that international trade in construction equipment would grow at an average annual rate of 3 per cent in the years to 1985 compared with a 6 per cent growth expected for total trade.

This caused raised eyebrows among the British in particular as this 3 per cent forecast is right in line with what they themselves were expecting in 1978. In the light of the past couple of years' experience, however, the British have adjusted their expectations downwards.

In the 18 months to the end of 1977 the UK construction equipment manufacturers saw absolutely no growth in demand for their products and output remained at about £800m a year. There have been redundancies and short-time working has been, and still is, commonplace. The French also have been scattering statistics to show how badly they have fared. Last year production fell by 7 per cent from the 1976 level to FF6.83bn (roughly £900m) and, since the peak period of demand in 1972, employment in the French construction equipment industry has fallen by 15 per cent.

The West Germans dropped broad hints that life has been even tougher for them because the Deutsche Mark is so highly valued compared with other currencies, making exporting that much more difficult. However, they managed last year to keep output at around the DM 5.29bn level (£1.37bn).

In the face of completely lifeless home markets, the Europeans have been exporting as never before. But competition in the "active" markets has, in the words of one protagonist, "to be experienced to be believed."

It is not just the Europeans

who have been under pressure. In 1977 Caterpillar, which dominates the industry with 50 per cent of total world sales, pushed sales outside the U.S. up only marginally from \$2.945bn to \$2.966bn. Komatsu of Japan, second in the construction equipment league with a 10 per cent world share, managed a modest 1 per cent increase to ¥424.46bn (\$1.9bn) last year.

The major (published) disaster story to emerge from the industry so far has involved Massey-Ferguson—one of the top six manufacturers—which reported in February estimated losses on its construction equipment business of \$60m last year.

M-F, at one time mainly an agricultural machinery business, has been investing heavily in construction equipment manufacture in recent years and has plants in Akron, Ohio; Brazil, and Aprilia, near Rome. Its major investment was the 1974 purchase of Hanomag, a West German concern operating from Hanover.

M-F is currently carrying out some studies to discover the exact amount of losses on construction equipment in recent years. This is not an easy task because of the high degree of integration of manufacturing and marketing operations for the farm industrial and construction machinery lines.

The outcome of the studies is of great significance to the European scene because the heart of M-F's construction equipment operations is at Hanover. There seems very little likelihood that these operations will be cut severely and none of its rivals appears to believe M-F would contemplate a complete shut-down of its construction equipment business.

The construction equipment plants take Perkins engines and other expensive components from other M-F divisions and the cumulative impact of closure on the rest of the group would be substantial. And would it be politically feasible for a multi-national like M-F to close down recently acquired, major plants?

M-F took a great deal of space to display its equipment at last week's Paris show, called "Exponat," and it certainly gives the impression of "business as usual." Indeed, the M-F Board has pledged that

the distribution and development of construction equipment would be "fully supported" while the studies were being carried out.

Of course, a big cut-back or closure by a major group like M-F would make a lot of difference to the over-capacity problems the industry faces at the moment. It is debatable whether it would do much to halt the seemingly inexorable rise of the multi-nationals, which in the past 15 years have changed the face of the construction equipment industry to the detriment of the small companies.

The Committee for European Construction Equipment (CECE), representing manu-

6... a degree of industry restructuring may be needed in the UK-owned sector...

facturers in seven countries, points out that Europe ranks second only to the U.S. in output terms and produced around £3bn worth of construction equipment last year. And, because the U.S. manufacturers export a relatively low percentage of their production, Europe is the world's major exporter.

But the CECE statistics disguise the fact that the £3bn turnover has to be shared among 800 European manufacturers. How are they to compete with the major groups in such things as research and development? Compared with the annual \$9m spent on R and D by the U.S. companies, Komatsu spends around \$28m and Caterpillar \$94m.

There has been much chatter among the Europeans about possible technical co-operation deals and about swapping or sharing R and D facilities. It seems that the concept of full-blooded mergers between companies from different European countries is not being given much consideration. To start with, the companies themselves are often very individualistic and fervently wish to preserve their independence. Then the current mood in the EEC seems to put international mergers out of favour—or so the ban of the

survive thereafter, a degree of industry restructuring may be needed in the UK-owned sector to ensure that sufficient financial resources are available."

But in spite of all this jolly along, the UK part of the industry shows absolutely no interest in the merger concept—be it mergers within Britain or a pan-European get-together. Many companies have shrunk during the recession, but they are still there, and survival is their main preoccupation.

However, some of them are also currently agitated about another topic—the prospect of Komatsu setting up a European manufacturing base in Britain. Mr. Kenji Sakai, president of the Komatsu Europe, said in April that a decision about this would be made by the end of the year.

So far, apparently, there has been no formal approach by the Japanese to the UK Government. But already some British manufacturers have told the Department of Industry in no uncertain terms that Komatsu should not be allowed in.

On the face of it the protest is a little illogical in that other multi-nationals, notably Caterpillar and International Harvester, already account for about half of UK output. But the British-owned manufacturers maintain that the Japanese have

THE MAIN CONTENDERS AND SOME OF THEIR PRODUCTS

	Excavator	Wheel loader	Motor grader	Motor grader	Motor grader	Motor grader	Motor grader
Caterpillar							
Hitachi							
Case/Ford							
John Deere							
Manitowoc							
Ford							
Clark							
General Motors							
Rio-Artis							
Valve							
Orion & Koppel							
Lindberg							
Bell/Delco-Rom							
J. C. Bamford							
Layland							
Hydrex (Powell Duffryn)							
Primavera (Aero)							

The above chart, though not comprehensive, illustrates the competitive situation in some of the main sectors. There is a wide range of products within each sector, so that in, for example, wheel loaders, companies may specialise in the heavier machines, and not compete directly against those offering only smaller equipment.

GKN-Sachs motor components merger would suggest.

The British manufacturers are typical in this context. For the past three years, since the start of the Government's industrial strategy programme, heavy hints have been dropped by the Department of Industry and National Economic Development Office officials that some reshaping of the UK industry was necessary. Indeed, the latest paper from the industry's sector working party, published in March, suggested that if the 1980 targets were to be achieved "and for some UK companies to

a reputation for tearing down much effort—to join forces and price structures whenever they put pressure on the Japanese enter a market in a serious way. To open up their market for Makers of equipment in large construction equipment. Factors volume are particularly concerned about Komatsu's plans. In Chicago either late in the "The problem is," explained one British executive in Paris, "that the Japanese appear to want only a 2½ to 3 per cent at the current round of GATF return on their investment negotiations."

So far it is not possible to see the opposition to Komatsu will be a principle: that about opening up a tremendous new market for the European construction set up in Europe. Its main incentive is not so much the avoidance of discriminatory import regulations but the need to cut transport costs. High-value items like engines would still be shipped out of more cheaply. Japan but most of the components such as heavy castings would be made in Europe.

As well as the UK, Komatsu has been looking at potential sites in Belgium, Holland and West Germany. So the proponents of Komatsu's possible entry into Britain can argue that, if the group does not settle somewhere else on Britain's doorstep, "Even if, as seems very unlikely, every European country kept Komatsu out, it would simply find a base in the Middle East and supply Europe from there," was one comment.

It is not only in Britain that the Japanese manufacturers find themselves at the centre of controversy. Throughout Europe there is resentment about the way Japan is making headway into most of the world's important markets yet at the same time keeping its own doors tightly shut against imported equipment.

Dr. Heinz-Gunter Kohlen, a director of Orenstein and Koppel (O & K) of West Germany and current president of the European committee (CECE) complained: "Japan is at present a closed market. This has to be stopped. The Japanese must be made to understand that trade is a two-way operation."

Dr. Kohlen has just initiated talks with representatives of the American manufacturers and has persuaded them—without

Continued growth in world population and further improvements in living standards will create increasing demand for energy, food, housing, minerals and transportation. More and more construction equipment will be needed to cope with this demand. As Caterpillar's president, Mr. Robert G. Truitt, pointed out recently, "World economic output must increase by more than 50 per cent in the next 25 years to provide the equivalent of today's living standards to the population which will inhabit the earth in 2000 AD."

However, what the European manufacturers have very much in mind is that nobody can guarantee them a fair share of this future growth in demand. It will require some dramatic changes if the multi-nationals are to be prevented from increasing their domination of the industry.

MEN AND MATTERS

Close watch on Eminent Persons

Blood pressures in the boardrooms of some big international companies are likely to leap in the next day or so, with the publication in Zurich of a heavily-documented report on "The Infiltration of the UN System by Multinational Corporations."

The report has been prepared by two liberal groups, the Bern Declaration and the Europe Third World Centre. It is composed largely of letters and memoranda that circulated among the managers of Switzerland's largest multinational corporations (including Nestle, Ciba-Geigy, Sandoz, Hoffmann-La Roche, Sulzer and Brown-Boveri) a few years ago. They document how these companies created a committee to lessen the possibility that a UN-appointed "Group of Eminent Persons" might make severe recommendations to regulate the operations throughout the world of multinationals.

The Group's recommendations were, indeed, rather meek and mild: proposals for a permanent UN body to oversee multinationals were rejected. The Zurich report claims that these developments were due to the efforts of the committee.

Two leading Swiss, connected with members of the committee, were appointed to the 20-strong Group of Eminent Persons: one was Arthur Flurer, then general manager and today managing director of Nestle; the other was Hans Schaffner, a former Swiss Federal Councillor who served as Economics Minister from 1961 to 1969, and who is now vice-chairman of Sandoz.

The Food and Agriculture Organisation supplied material for the Group. The Swiss committee's own report on multinationals was accepted as an official FAO document, via a body called the Industry Co-

operative Programme, which at that time represented "agribusiness" within the FAO. The companies' top-level committee also devised a strategy to counter the leading critics of multinationals, among them former EEC Commission President Sicco Mansholt (also an Eminent Person).

One aspect which will raise a few eyebrows is the way Schaffner, nominated to the Group as a governmental representative, was in close contact with the companies' committee while the Group was hearing evidence. The document also reveals an active co-operation between top Swiss government officials and Nestle and other private firms in efforts to take the sting out of the UN investigations.

Just the man

Chief executives nowadays use variety of techniques—even handwriting analysis—for choosing their successors. Sir Max Bemrose was explaining yesterday that when he decided to relinquish the chairmanship of the Bemrose Corporation, the



"As far as I can tell it's a plea for bail..."

best idea seemed simply to ask senior managers which of them wanted the job.

He told me how he first packed each manager off for three days of intensive management therapy. A five-day session with the American Management Association had convinced him that behavioural science and the study of management philosophy could revitalise the group.

The managers were asked to write a report on their experiences and, six months later, describe how they had implemented their ideas. Sir Max, who retired yesterday after 25 years as chairman, says that some did not bother to reply and that by far the best report came from David Wigglesworth, then the divisional manager of the flexible packaging group.

Sir Max relates how when asked if he wanted the job of Chief Executive, Wigglesworth turned it down. But six months later—in what Sir Max describes as a classic reversal—Wigglesworth applied for the job. He was duly given it. As a footnote to this anecdote, I might add that on December 31 last year, Wigglesworth by himself and as trustee had 133,621 ordinary shares in the company, only just less than Sir Max, as well as 48,000 Special Ordinary Shares. His mother was a Bemrose.

Dutch treat

A bold attempt to switch industrial investment away from Britain to mainland Europe takes place in Manchester today. At the city's Chamber of Commerce, local industrialists will be wooed by development officers and bankers from Limburg, an area of southern Holland which juts down into Belgium and is flanked by Germany. As well as financial inducements, the state-backed NV Industriehank LIOF is offering joint venture capital. It takes up to 50 per cent of the shares

in a new business, with an undertaking to sell them back at purchase price plus an interest fee five or ten years later.

Bank chairman Pieter Niessen admits that Limburg's unemployment problem, caused mainly by the run-down of local coal mining, is tiny compared with that of Greater Manchester. There are about 19,000 unemployed men in Limburg, concentrated in two or three towns; nearly a quarter are over 50 and have opted for early retirement. The Greater Manchester area, on the other hand, has six-figure unemployment and is getting special government support.

Fighting fit

If energies ever flag at board meetings of property company Briston Estate, there will be no shortage of war stories to stir the blood. The company's newly-published 1977 report lists the re-election of Marshal of the Royal Air Force Sir John Grandy; his fellow directors include Rear Admiral the Earl Cairns and Major General Sir Gerald Duke. The chairman, Michael Verey, was himself a colonel in the Warwickshire Yeomanry during the war.

Hard sell

A reader who was recently in Greece tells me that while buying a copy of the Financial Times near his house he pointed out to the shopkeeper that a sign in his window was rather misleading. "It says 'All London newspapers sold'," he told him, "and some people might take that to mean that you had none left." The shopkeeper thanked him for the information, and later in the day there was a new sign in the window: "All London newspapers not sold."



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FINANCIAL TIMES SURVEY

Thursday June 1 1978

No more soft options

By Martin Dickson

"FACED WITH major problems, it is natural for policy makers to think of the easy or soft way out. It has, ladies and gentlemen, taken us the last few years to accept that the era of soft options is over." Mwal Kibaki, Minister of Finance and Planning, January, 1978.

These words go to the heart of the major challenge now facing Kenya and form the theme of this survey. Over the next few years the country will have to face some very tough decisions across the board—economically, socially and politically. Mr. Kibaki's remarks were made at a conference of top Kenyans to discuss the future of the country—show that many government leaders are aware of the problems facing them. It remains to be seen whether they have the political resolve and economic means to translate grand sounding words into effective action.

Since independence in 1963 Kenya has chalked up a highly impressive list of achievements. Its GDP has grown faster than virtually any other non-oil producing African State. Jobs held by white expatriates have passed relatively smoothly into Kenyan hands. Farms formerly held by British settlers have been redistributed to Africans, by and large in an orderly fashion, and the country has built up one of Africa's best smallholder agricultural sectors (although there is much that can still be done here).

All these achievements have been underpinned by the country's stability, attributable largely to the political acumen of President Kenyatta, whose personal magnetism transcends narrow ethnic loyalties. This, coupled with his careful balance-

ing of tribal representatives within his Cabinet, has gone a long way to defuse latent ethnic frictions.

Yet if Kenya's reputation as a Third World success story is superficially symbolised by central Nairobi, with its heavy emphasis on material goods and its free-wheeling capitalist atmosphere, the polythene covered shanties on the outskirts of the city point up a different lesson.

There is a wide gulf between the have-nots and the small, rich elite of Kenyan society. It may be no worse than in some other African countries, but that is little consolation to the poor. What matters is that there is considerable grassroots resentment over the amassing of wealth by the elite, some of it by highly questionable means.

Some of the Government's policies since independence—such as Kenyanisation of jobs and land reallocation—have acted as a political safety valve. But there is now not that much more land to reallocate nor many more jobs to Kenyanise. With tougher economic times ahead, there can be no guarantee that this safety valve will continue to work. There can be no room for complacency.

The challenges facing Kenya have in many respects been visible since the early 1970s (and have been well described by the International Labour Office and the World Bank) but they have now crystallised more clearly than ever.

Central to them is the need for a more equitable distribution of wealth. This is accepted Government policy, but there are powerful vested political

and economic interests which could militate against achievement of the goal.

Moreover, this policy has to be pursued against a short-run backdrop of looming balance of payments constraints (which the tea and coffee price booms of recent years have delayed but not averted) and a rate of inflation which is at present causing concern, particularly since much of it is domestically generated.

Much of Kenya's high rate of development since independence results from the greater utilisation of resources which are relatively easy to exploit, such as land of high agricultural potential. This is one of the things Mr. Kibaki was referring to when he spoke of past "soft options"—though in fairness to Kenya it should be said that while the options may have been simple to choose, implementation was not necessarily easy.

The country is now entering a much more difficult area of development, where the returns are likely to be lower. And a lower growth rate will make more difficult the policy of "redistribution through growth"—the more equal distribution of future income increments.

Seriously

At the same time, the Government has to address itself more seriously than in the past to two particularly thorny long-term issues: a very high population growth rate (officially put at 3.5 per cent a year), which

Government policies to date have proved ineffective in dealing with, and concomitant mounting pressure on the land

Kenyans, like most other Africans, have an almost mystical attachment to the land and believe that it is every man's right to own a plot. Leading Kenyans tell you that, with good land in short supply, it will be necessary to disabuse people of this notion. But it is difficult to put across this message when the landless man can see estates in the hands of the very people preaching to him. To highlight these problems is not to say that Kenya's future looks grave. Its people are remarkably resourceful. But economic restructuring is intimately bound up with politics, and it is in the latter sphere that many of the most difficult decisions will have to be faced.

International politics are already having an impact on the development process. Kenya is now more isolated from its neighbours than at any time since independence, with the breakup of the East African Community last year and turmoil in the Horn of Africa. Fears of a Somali invasion of North East Kenya (similar to Somalia's abortive drive into Ethiopia's Ogaden) have forced the Government into much higher defence spending, which is going to have an impact on the balance of payments.

As regards domestic politics, the prime issue of debate ends in an unanswerable question: What will happen to Kenya after Kenyatta? Given the importance of continuing stability, this is perhaps the most crucial single challenge facing the country.

The President is still firmly in command but he is now well into his eighties. The Kenyan constitution is clear on what

would happen in the event of his death: the Vice-President, Mr. Daniel Arap Moi, would take the reins of Government for 90 days, during which time elections for a new President would be held.

However, during the past two years this formula has been challenged in a manner which points up the jostling for power within the elite and the coalescing of two loose, rival factions—one centring on Mr. Arap Moi, widely considered to be the front runner in the succession stakes, and the other on Dr. Njoroge Mungai, President Kenyatta's nephew.

These rivalries came clearly into public view in late 1976, when politicians associated with Dr. Mungai proposed that the constitution be changed so that the Vice-President would not take over for the 90-day period. Instead, a neutral figure, perhaps the Speaker of Parliament, should head a caretaker administration.

The movement was halted—at least publicly—when Mr. Charles Njonjo, the Attorney General, declared that the debate touched on the health of the President and that discussion of this was a crime that could be punished by death. Mr. Njonjo, one of the key figures in Kenyan politics, is close to Mr. Moi, as is another of Kenya's most impressive politicians, Finance Minister Kibaki.

Although shifting in nature, these two broad alliances still exist. They are based on a multitude of factors, some overlapping and some conflicting,

with very little, if any, ideological base. The factors include traditional strong competition between members of the Kikuyu tribe from the southern Kiambu district (the President's home area) and those from the north; rivalry between those in the political ascendant (the Moi group) and those challenging them; and perhaps most important of all, personality factors. Cutting across all these issues are elements of straightforward political bandwagon jumping—members of the politically dominant Kikuyu and factions within other tribes associating themselves with whichever team they believe will emerge on top.

Olympian

For example, a feature of this jostling is an apparent, though shadowy, flirtation between the "change the constitution" group and followers of Mr. Gginga Odinga the veteran Luo politician, who left the Government and ruling party, the Kenya African National Union (KANU), in 1968 to form the Kenya People's Union (KPU), which was banned in 1969 during the unrest which followed the assassination of his rival for the Luo leadership, Mr. Tom Mboya. Mr. Odinga still commands widespread support among the Luos, who remain divided, but to date the authorities have frustrated his attempts to make a political comeback.

Prognostications about the future stability of the country vary immensely, but a wide body of opinion believes that too many people now have a vested interest in the system to allow it to be disrupted—not

only people at the top, but the smallholder tea and coffee farmers of Kikuyuland who have benefited particularly from the boom in these commodities.

While obviously of importance, these jostlings for power are in a sense a side issue to a central challenge facing Kenya—to what extent can entrenched political interests accommodate change. Little can be expected in the short term, but a future administration might well wish to establish its credentials and popularity with a more populist programme. But just as vested interests may prevent future instability, so may they thwart fundamental change.

Kenya is, after all, a country remarkably devoid of overt ideological disputes. Although a vocal minority at Nairobi University espouses radical causes, many Kenyans seem geared to achievement within the existing laissez faire framework. But there is no way of knowing whether more radical ideas are circulating among the discontented.

During the past few years the authorities have not shown themselves to be benignly disposed to those few politicians who have questioned the ordering of society. Although some lively debates still take place in the Kenya Parliament, it is not the place it once was. Some of the most critical MPs are now in detention and others are silent, fearing that if they step too much out of line they will go the same way.

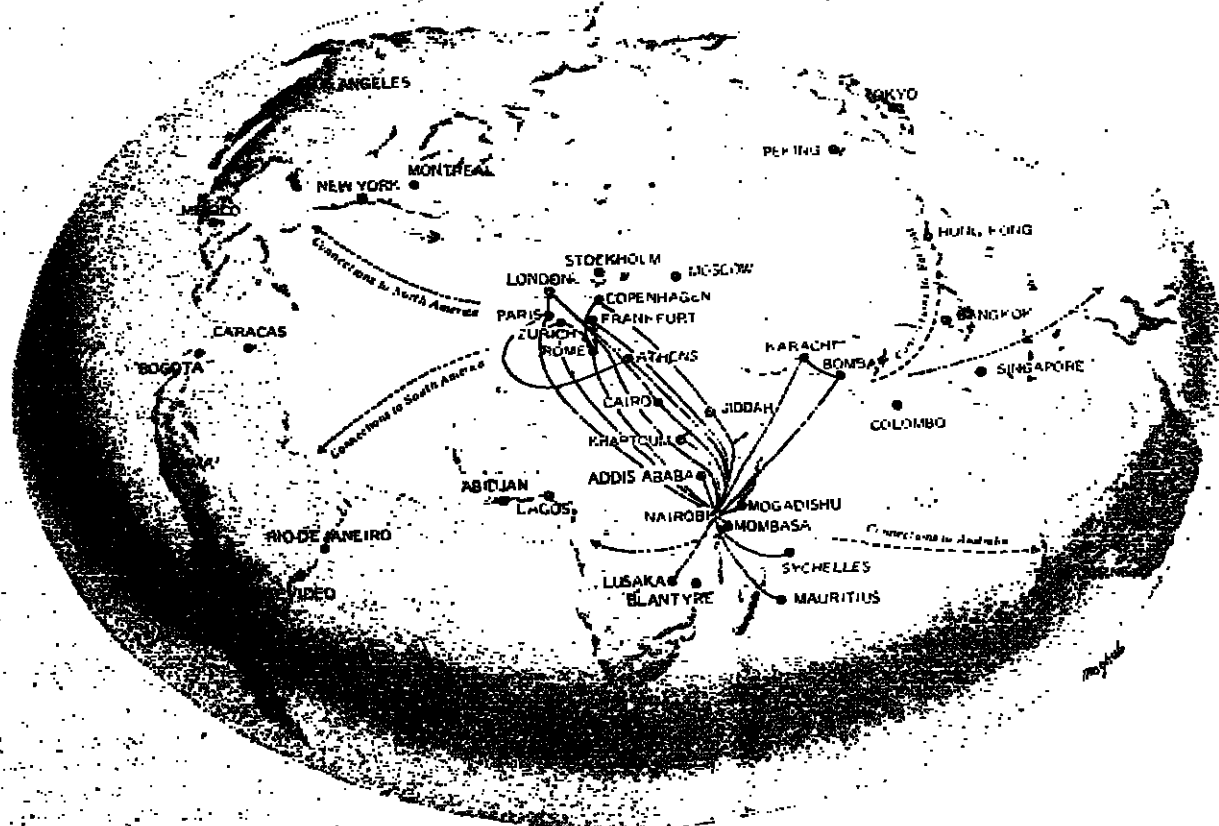
J. M. Kariuki, one of the most outspoken and popular of Kenyan MPs, was found brutally murdered outside Nairobi in 1975. Just who killed him will never be known. Although the national trauma created by his death has now faded, there remains a residual fear of potential violence lurking beneath the surface of political life.

Since then, several critical MPs, including the Deputy Speaker, have been detained, as has the Left-wing novelist Ngugi Wa Thiong'o. But despite the detentions, Kenya remains one of Africa's most open societies as regards political debate. And it has a far better human rights record than many countries.

There are estimated to be only about a dozen political detainees.

CONTINUED ON PAGE 21

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KENYA II

Boom coming to an end

BY ANY standards Kenya's estimated GDP growth of 6.7 per cent this year—albeit down on 1977's 8 per cent—is impressive, and some of the results can be seen in the modern, bustling capital of Nairobi. The country is still enjoying the impact of record coffee and tea prices and every sector of the economy benefited in 1977.

Nevertheless, the boom—which led to the remarkable recovery over the past two years, following the oil crisis in 1974 and the crippling drought of 1974-75—is coming to an end, although the lag in receipts masks this fact. This is likely to be underlined in the coming months by a fall in coffee earnings. This year's crop of some 75,000 tonnes is 25 per cent down on last year, while first indications for 1978-79 suggest that the crop will be around 70,000 tonnes.

Without the massive leap in export earnings from the two crops—K£68m in 1975 and K£276m last year—the Kenyan economy would have been in serious trouble. As it turned out there has been a valuable breathing space in which the economic planners could prepare for the development quintennial 1979-83.

There is a growing acceptance among both politicians and civil servants that the country must brace itself for a tough and challenging period, in which some hard decisions have to be implemented. The issues are not new, but the framing of the 1979-83 plan concentrates attention upon them: the need to combine efforts to bring about a more equitable distribution of income; to make industry more export-orientated; to ensure that a greater proportion of Government and international aid reaches the marginal and semi-arid areas which represent 81 per cent of the land and house about a third of Kenya's 14.5m people; and to reduce the 3.5 per cent population growth.

Discipline

Kenya will have to accept that the average 7 per cent (GDP) growth between independence in 1963 and 1974 will not be reached under the new plan. In the words of the central bank Governor, Mr. Duncan Ndegwa last month, an "emerging resources constraint (will) force a harsher discipline on the economic choices facing the country... all of us should be prepared to face changed economic circumstances in the immediate future."

If this sounds gloomy, then it should be said at this point that given the right policies—and equally important, the determination to carry them out in time—Kenya's reputation as what one diplomat calls "A Third World success story" can be maintained. The theme of the plan—of which more later—is alleviation of poverty through satisfaction of basic needs. But the planners set about this task against a background of three problems in particular, coming upon them almost simultaneously (in addition to other equally demanding problems): a widening trade deficit leading to an overall balance of payments deficit; greatly increased defence spending; and a worrying rate of inflation.

It was the first of these problems that led to the unpublicised visit to Nairobi recently by a small delegation from the International Monetary Fund (IMF), and they will return after this month's budget. The balance of payments deficit is likely to be K£17m this year (compared to a K£15m surplus in 1977) and two or

three times as great in 1979, when officials expect IMF aid will be necessary.

The deficit will be partly due to the falling prices of coffee and tea. The boom had a dramatic effect on exports. In 1975 the two commodities accounted for 34 per cent of total exports. This rose to 49 per cent in 1976, and to 60 per cent last year. This year coffee earnings are expected to fall about 35 per cent to K£130-135m, and tea down 25 per cent to K£55m.

Meanwhile import licences issued in 1977 increased some 43 per cent in value over the preceding year, and some sources believe that the trade deficit in 1978 could exceed K£200m.

Although foreign exchange reserves reached a record K£352m in July, 1977—then equivalent to five to six months imports—the subsequent trend is disturbing. Latest figures show that the quarterly import bill rose sharply during this year from K£121m in the first quarter to K£135m in the fourth quarter, while foreign exchange reserves had fallen to K£210m by the end of 1977, about four months imports at the current rate.

But apart from coffee prospects and import levels there is one outstanding reason why IMF aid will be needed: increased defence spending.

It consisted of a reasonable 12.5 per cent of the 1977-78 budget, but rose to 18 per cent after the K£50m supplementary estimates, and further spending is necessary because of instability in the region and, in particular, concern about what is perceived as Somalia's intention to pursue territorial claims in north-east Kenya.

The third problem is inflation, currently about 14 per cent and rising according to some observers. In the first ten years of independence Kenya experienced little or no inflation. In 1974-76 much of it was imported, mainly due to the oil price increases, but 1977 saw the beginning of domestically caused inflation when money supply increased by a staggering 47 per cent as coffee and tea money poured in.

Last month the central bank introduced tighter measures to keep the supply in check. Overall credit expansion by the commercial banks will be 22 per cent during the fiscal year 1978-1979. After taking into account expected credit to Government, this will limit credit expansion to the private sector to about 18 per cent in the year ahead, compared to the 33 per cent expansion in bank credit to the private sector in 1977.

Adding to the planner's difficulties is the fact that the development issues must be tackled by a series of what the Minister of Finance, Mr. Mwai Kibaki, called "hard" policy options.

As set out by Mr. Kibaki, the "soft options" of the past have included: Kenyanisation of the public sector; redistribution of the "scheduled" (white-farmed) areas; attraction and protection of direct overseas investment; development of financial and other secondary institutions to serve industry in urban areas; development of the urban infrastructure; import substitution; and extension of basic education.

Each of these has a hard counterpart for the future: Kenyanisation of the private sector; raising agricultural productivity; reclamation of marginal land; extending infrastructure in areas of marginal productivity; development of local entrepreneurs; development and protection of local infant industries; rapid rural development in part through greater agricultural credit; rapid expansion of domestic marketing and distribution systems; development of rural infrastructure; diversification of industry and agriculture; generating employment opportunities; and modifying the education system to meet future needs.

Missing from the list of "hard" options, however, is a commitment to an effective population policy. Government efforts have done little if anything to stem the 3.5 per cent growth rate—yet it is an issue on which Kenyan politicians seldom comment in public. What, then, are the plan's targets? It will not be published until later this year and only the broad principles are available. But, given the intention to alleviate poverty, the plan will have to concentrate on basic needs: nutrition, health, education, water supplies. Clearly the marginal areas should have a development priority, with emphasis on irrigation and marginal farming techniques.

In the high productivity areas—mainly a belt of land running from Nairobi, west to Kisumu and north to Nanyuki—which produces the bulk of marketed agricultural produce, up to 60 per cent of small holders are currently benefiting from cash crops. But the remainder should be encouraged

BASIC STATISTICS	
Area (square miles)	244,960
Population	14.5m
GNP (1976)	K£1.37bn
Per capita	K£99
Trade (1976)	
Imports	K£407m
Exports	K£330m
Imports from UK	£97.7m
Exports to UK	£61.3m
Trade (1977)	
Imports from UK	£118m
Exports to UK	£155m
Currency: Kenya shilling/	
pound	Shs14.4
	£1=K£0.73

through increased extension services and access to credit facilities.

In the industrial sector, most economists recommend the faster development of agro-industries, a diversification of exports accompanied by improved export incentives, and the establishment of more small-scale industries in the rural areas.

Providing jobs will be one of the biggest challenges, yet neither the modern nor the "informal" sector (described elsewhere in this survey) can meet the demand.

The labour force is increasing at a rate of at least 250,000 a year. Even if there is a six per cent annual increase in the 900,000 strong modern sector—an optimistic forecast—that still leaves some 200,000 (in addition to existing unemployed) for whom jobs must be found in agriculture, petty trade and other "informal" sources of employment.

The majority of the work seekers will, it seems, have to find jobs on the land. Given that the average size of smallholdings is a mere 2.3 hectares, it will be hard to place them. Clearly more labour intensive techniques, accompanied by technology appropriate for semi-arid lands, small-scale ranching and village workshops will be necessary.

Equitable

According to one estimate, during the 1960s it cost a capital investment equivalent to today's prices £6 about K£4,000 for each new job created in the modern sector—compared to a mere K£40 in the informal sector.

Economists also believe that the plan should attempt to prevent the rural-urban terms of trade returning to favour the urban sector, as they did until the crop price increases in 1976. The terms must, as coffee and tea prices fall, swing away from the rural sector, but through pricing and other policies the Government could maintain the more equitable level that existed in 1976.

Foreign aid—K£45-50m in 1977—is expected to run at K£70-100m per annum (constant at 1976 terms) during the five-year plan. The rate of foreign investment is also expected to remain constant.

In the case of the latter inflows tend to be offset by outflow in the form of remittances of profits and dividends leaving net foreign investment of zero (though it fluctuates from year to year). But re-investment of profits accruing from foreign funds runs at K£40m a year, and is expected to remain at that level.

The plan's GDP target currently being debated is 6 per cent a year, though this may be reduced to 5 per cent, which some observers believe is a more realistic figure.

The reason is that some of the resources available in the first decade are either exhausted or reduced, and certain "soft" policy options are, as Mr. Kibaki points out, now closed. One of the most worrying consequences is the severe pressure on land. Resettlement of previously white-held mixed farms is now largely completed, yet one estimate puts landless migrants at 400,000 in 1976, growing at 15,000 a year.

Hence the need for exploiting marginal lands, and perhaps measures such as placing a ceiling on land ownership, taxing idle land and subdividing larger farms, while maintaining rapid growth of non-agricultural employment opportunities.

A further demanding issue is the requirement that there be a greater shift from the industrial policy of import substitution to agro-industries, gradual lifting of some of the existing protective measures which have led to the production of items which would be cheaper if imported and a determined export drive.

So far the export record is disappointing. Although exports rose 46 per cent in value in 1977 over 1976 this was entirely due to coffee and tea sales, and at constant prices the growth of exports has been slower than the growth of the economy as a whole. This is partly because of the break-up

of the East African Common Market and has forced industrialists to look to Europe, North America and the Middle East for new markets.

Inevitably, the inadequate export performance raises the question of devaluation. Some of the exhibitors at the recent Kenyan trade exhibition in New York returned complaining that they simply were not competitive. However, the Kenyan shilling, by being tied to the SDR, has been floating down (by 5 per cent in 1977) against the EEC countries—Kenya's main trading partners.

A strong argument against devaluation is its impact on the prices of imports, only one-fifth of which are direct consumer products. But it could force industry to make greater use of local materials and encourage them to turn to agriculture-based manufacturing and allow Kenyan exports to become more competitive. The alternative is a continuation of the export subsidy policy (10 per cent of the value of exports provided local content is at least 30 per cent.) But this has proved ineffective.

The planners must also fill some of the gaps between intention and achievement under the 1974-78 plan. Of course, no government can stick to development plans to the letter. Economic conditions on which they are postulated are almost certain to change. As one observer put it, the plan should be treated as a statement of

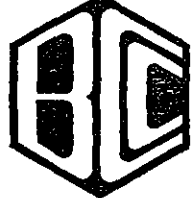
Government intentions, which often may not be fulfilled within the period set down; but at least the plan can help shift Government policy in the right direction.

That said, it is nevertheless worth raising one area where the 1974-78 plan failed to meet targets—because it has made some of the tough options that lie ahead even tougher. The commitment to "redefine the size of all co-operative and low density settlements, and the criteria for land ownership" as part of an effort to create 350,000 new agricultural smallholdings, was not met.

In the view of some observers there has been a tendency to drift because there is no short-term economy management. "Nothing happens between budgets, and then little happens in the budget itself," commented one economist. But there is now more scope for independent change of tariff policy since the demise of the common external tariff of the EAC.

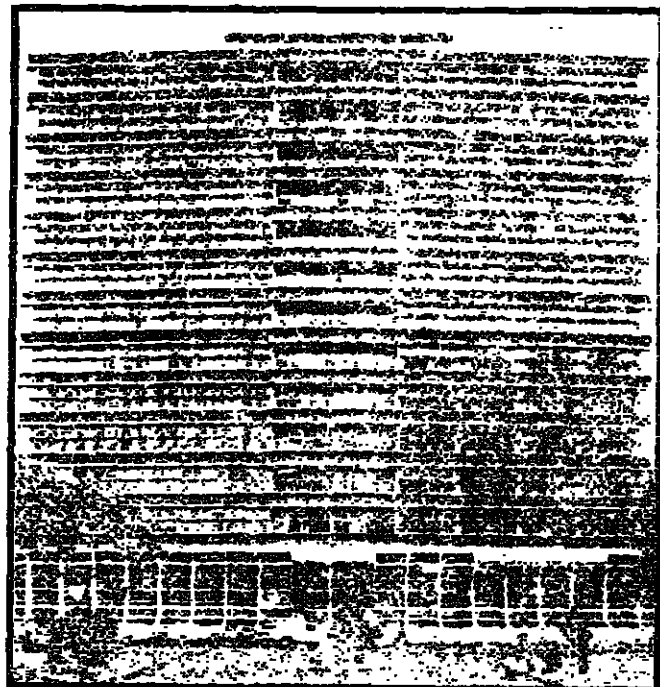
Yet what remains impressive is the vigorous, often public, debate taking place about policy priorities and targets, with no lack of self-criticism about performance in the past. The biggest question, then, that hangs over the Kenyan economy is whether the decision-makers will be prepared to implement the tough options that have been identified.

Michael Holman



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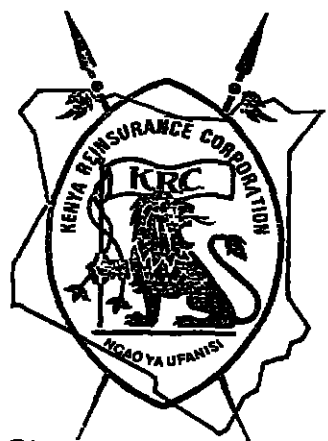
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KENYA III

Heavy emphasis on agriculture

AGRICULTURAL development is one of Kenya's most impressive achievements. Even though land is one of Africa's most obvious and crucial development resources, there are few countries which have effectively mobilised the agricultural sector. Kenya has done far more than most, though much remains to be done.

Agriculture forms the backbone of the economy. Some 80 per cent of the population still live in rural areas and earn their livelihood predominantly from the land. The sector provides about 70 per cent of Kenya's foreign exchange earnings (coffee, the largest single revenue earner, together with sisal and pyrethrum making up the largest proportion of this). Agriculture makes up around 30 per cent of the GDP.

Possessing no significant mineral resources, Kenya has had little choice but to lay heavy emphasis on agriculture and it has been helped (though some would argue as to what extent) by the existence of a reasonably well developed infrastructure left by the British settlers.

But even with these comparative advantages, it is a considerable achievement that the agricultural sector (monetary and non-monetary) had an annual average growth rate of about five per cent per year in real terms between 1964 and 1973.

Between 1973 and 1978 the sector was hard hit by drought, and it is something of an achievement that the growth rate was just prevented from becoming negative. Better weather conditions in the past two years have helped a strong recovery. Gross marketed production was estimated to have increased in real terms by some 12 per cent in 1977 over the previous year.

Two particular strengths of the sector need emphasising. First, it has become very well diversified, to a considerable extent protecting the country from the boom-bust cycles of mono-crop economies. Second, it has made Kenya virtually self-sufficient in food, entailing a valuable saving of foreign exchange (though some would argue that the Government's "self-sufficiency" doctrine can be carried to excess).

Planners are hoping that over the next five years agricultural output will continue to rise at a very respectable 5 per cent per annum (7 per cent for the monetary sector and 3 per cent for non-monetary). Nevertheless, the way ahead will be increasingly strewn with difficulties, which boil down to two crucial long-term issues: In Africa the two central pillars of the social security system are children and land. In Kenya there are far too many of the former and there is far too little of the latter.

The population growth rate is increasing at 3.5 per cent per annum. An average rural household has nearly seven members.

Yet good quality land is in very short supply, and the most productive allocation of what exists is to some extent inhibited by exclusivist tribal claims on particular areas. It is often not realised just how little of Kenya's land is inherently suitable for intensive farming. Only about 18 per cent of the country (most of it stretching west from Nairobi) can be described as having high or medium potential. Much of the rest is only suitable for stock raising at various levels of intensity.

Populated

Since much of the high potential areas are now heavily populated, the Government is having to concentrate more and more efforts on the so-called "marginal areas"—which covers land of widely varying potential, from the semi-arid, suitable for certain crop mixes, through to zones suitable only for low intensity pastoralism. And capital input-output ratios in these areas (described by one agriculturist as a "potential development nightmare") are likely to be lower than in the high potential areas.

Before looking at both the high potential areas and the marginal lands it is necessary to consider Kenya's land-holding structure. A striking feature of the agricultural sector is the important contribution made by Kenya's 1.5m smallholders, who farm plots of up to 30 acres, although some 60 per cent of these families hold only five acres or less.

After independence, many of the old mixed white farms in the high potential areas were broken up into smallholdings or co-operatives, while in the tribal areas the Government has progressively consolidated individual holdings and granted individual title to the owners. Many people attribute the success of the smallholding sector to the granting of individual title (a rarity in Africa).

Smallholders now produce some 50 per cent of Kenya's marketed agricultural production (the remaining 3,200 large farms, plantations and ranches contributing the rest). But this figure underestimates the importance of the smallholders. Not only does non-market production account for up to 60 per cent of their output, but they produce most of Kenya's pyrethrum and about half its most important foreign exchange earner, coffee.

However, there remain wide income differentials not only between those smallholders in the high-potential areas and those being increasingly pushed by population pressure into the marginal lands, but also between farmers in the high-potential areas.

Much can therefore still be done to raise smallholder productivity in the high-potential areas, including improved access to credit for inputs such as fertiliser (in the past credit has been more easily available for the large farmer), better crop mixes (with perhaps an increasing emphasis on labour-intensive horticultural crops) and improved extension services. Although Kenya has a much higher ratio of extension workers to farmers than most African countries, the quality of the extension service is open to question.

Another important issue in the high-potential areas—with strong political overtones—is the future of the remaining 1,800 mixed farms (but not plantations) owned individually or by small groups, some of which are making very efficient use of the land, while others are most certainly not.

Kenya now has an estimated 400,000 landless people, and for some years the Government has been indecisively debating whether

or not to ameliorate this rural employment problem by breaking up many of the remaining large farms into smallholdings, as well as looking at the apportionment of land on co-operatives. The argument goes that the only large farms vital for the economy are those used for stock breeding and the production of high-quality maize seed.

As it is, a substantial number of the large farms have already been divided *de facto* into smallholdings, and these will be given *de jure* status under the new 1979-83 development plan. But what of the remainder? The influential large farm lobby is naturally against sub-division and Government policy remains confused.

But even if the Government were to go ahead, sub-division would only be a partial palliative to the rural employment problem, given the large number of landless who need to be absorbed and the limited number of large farms. The emphasis has to be on development of the marginal lands and on other policies.

Given the immense variation in the quality of the marginal lands, they require an extremely challenging range of approaches, depending on local conditions. Three broad possibilities stand out—improved arable farming in the less arid areas; large, intensive irrigation schemes; and improved ranching in the more arid areas.

Development of the less arid areas is in itself very difficult, not least because farmers entering these areas from the high potential areas bring with them farming techniques which are totally unsuitable, leading to crop failure, desertification and increased poverty.

Heavy emphasis is therefore placed here on integrated agricultural development programmes for a whole area, with a strong accent on bringing credit to the smallholder. There are, however, some who would argue that in the past too much emphasis has been given to immediate credit (with a low repayment rate) rather than the provision of the infrastructure which has to underpin higher productivity.

Also, much work still has to

be done on the technical side of developing these areas, covering such questions as the change on cotton imports and development of small-scale water management schemes, which will help alleviate land pressure and retain moisture by the soil.

Aid donors are now being strongly attracted to these areas, including drought resistant maize, sunflowers and other crops suitable for the semi-arid areas. Kenya is still an importer of vegetable oils and cassava.

With few major rivers, Kenya has only a limited potential for large-scale irrigation schemes, which are expensive and require very careful management. Particular controversy at present surrounds the Bura development scheme on the lower Tana river, where the Government plans to settle 10,000 small-scale farmers, largely growing cotton, at a cost of \$100m. Some aid donors argue that the scheme is just not financially viable.

Kenya, however, maintain that the plan has to be looked at as a totality and not just as a pound for pound equation between inputs and outputs—the scheme will generate some

hydro-electric power, it will allow savings of foreign exchange on cotton imports and perhaps most important of all, water management schemes will help alleviate land pressure and retain moisture by the soil.

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Options

CONTINUED FROM PAGE ONE

There may be force in the argument of one well-placed source that the Government has to look after the interests of 12m Kenyans and not "12 subversives." Stability is one of the country's most precious assets.

But it remains debatable whether the interests of society are best served by detaining those who point a finger at its failings in a country which is a *de facto* one party state and where that party is not in itself an effective channel for grassroots feeling. KANU may spring into action when parliamentary elections are held, but it does not appear to do a great deal at other times. Indeed, last year's postponed party elections would have been the first in over a decade. In Kenya much of the responsibility for articulating popular feeling therefore falls on back-bench MPs, the detention of whom may make Kenya body politic. It is not

the leadership more isolated. Corruption is recognised by many Kenyan leaders as a serious problem. Only last month the outspoken Attorney General said it was an "open secret" that this existed among top Government officials. And Labour Office, in a major report last year the official Government on Kenya, pointed out some of the major income imbalances in the country, especially in the civil service, threatens the very fabric of society.

The Government does, it is true, take action against corruption, which is not as pervasive as in some other parts of the continent, but by and large it is the small operator who gets caught.

Problems

If this article points a finger at some of the problems in the Kenya body politic, it is not

from any gratuitous desire to emphasise on the "informal" sector of the economy, as also suggested by the ILO. But words still have to be translated into action.

The country's new five-year development plan, to be unveiled at the end of this year, takes as its theme "the alleviation of poverty." Realistic Kenyans admit that there will inevitably be a lag between formulation and implementation. The political challenge facing the country is to see that there is clear movement towards implementation and that the time gap is not too great.

As Mr. Kibaki concluded after examining the "hard options" facing the country: "We can avoid, postpone or even rationalise these issues. But sooner or later these lines suggested by the ILO and other questions have to be resolved."

Martin Dickson

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FOREIGN INVESTORS ARE WELCOME IN KENYA

THE ROLE OF THE CENTRAL BANK OF KENYA

I. Introduction

Kenya welcomes local and foreign entrepreneurs to invest in the country. Kenya has a mixed economy in which the private sector plays a crucial role in the establishment of production activities. The Government supports the private sector through parastatal development finance institutions (the most important ones being the Industrial and Commercial Development Corporation, the Development Company of Kenya and the Industrial Development Bank) which provide long-term loans and participate in the equity of the firms as and when considered desirable.

The transportation and communications system within the country and with other African states, and the rest of the world, are adequate and constantly improving. Kenya has good infrastructural facilities like roads connecting Nairobi, the capital city, to different centres within the country and to different African countries like Uganda, Tanzania, Ethiopia, Zambia, Rwanda, Burundi, Zaire, Central African Republic, Cameroon and Nigeria to Lagos. The country is also being connected to Sudan. Communication to Europe and other western countries is easy and quick through telex and telephone. Kenya is connected internationally through the busiest sea port on the east coast of Africa at Mombasa, and two international airports at Nairobi and Mombasa. The international and local airline services are very good. There is also a railway line connecting important towns within the country and East Africa.

II. The State of the Economy

Kenya had an estimated population of 13.8 million in 1976 which is growing at an approximate annual rate of 3.5%. The total population is expected to be around 16 million in 1980, and around 22 million in 1990, providing an increasing domestic market for local industries.

The gross domestic product has increased at a cumulative rate of 7.1% in real terms between 1964 and 1974 indicating the health and stability of the Kenya economy. During 1974-76, in spite of world-wide recession and inflation, the performance of the Kenyan economy was better than most of the developing countries and even some industrialised countries. In 1977, the gross domestic product increased by an impressive 7% to 8% in real terms, and the real growth rate anticipated in the forthcoming 1979/83 Development Plan is around 6%.

The manufacturing sector accounts for about 15% of Kenya's national income, in the monetary sector. Since independence, Kenya has developed a diversified and vigorous manufacturing sector. It is the result of the trust and confidence of the foreign and local investors in the future of this country and a fruitful co-operation between the Government and the private sector.

III. Protection of Private Investment

The official attitude of the Government is friendly towards private foreign investment. The Government protects private foreign and local investment against

compulsory acquisition through provisions contained in the Constitution. In an extreme case of unavoidable acquisition in public interest, full and prompt compensation payment would be made.

The Foreign Investment Protection Act provides statutory protection to approved foreign investment. Under the Act, the Government issues a certificate of Approved Enterprise to foreign nationals who invest foreign assets or re-invest their profits in Kenya. A holder of such a certificate is entitled to two major ranges of protection with respect to repatriation and compulsory acquisition. The repatriation guarantee permits the transfer out of Kenya in the approved foreign currency and at the prevailing official rate of exchange: (i) the profits after taxation in proportion to the investment in foreign equity; (ii) approved proportion of the net proceeds of sale of all or part of the approved enterprises; (iii) the principal and interest of any loan specified in the certificate.

Besides the Foreign Investment Protection Act, the Government has recently established the export compensation scheme which is intended to encourage manufacturers to increase their exports to countries all over the world. The scheme provides for payment to the manufacturer of 10% of f.o.b. value or 10% of the foreign currency proceeds of exported goods that are locally manufactured. Duty drawback are also given in certain cases where raw materials required in the manufacture are imported. Tariffs are also used to protect local infant industries against stiff external competition.

IV. Industrial Licensing

Kenya has a very liberal industrial licensing system. No licence is required to set up manufacturing activities in the country. Except in a few cases, anyone can establish an industry to manufacture any product whatsoever. Prospective local investors are, however, advised to inform the Ministry of Commerce and Industry about the investment proposal in order to ensure that there are no superfluous investments. Foreign investors are advised to get their projects approved by the New Project Committee so as to facilitate the issuance of the Certificate of Approved Enterprise by the Ministry of Finance and Planning.

V. Taxation

The corporation income tax in respect of corporations (i.e., firms and companies) resident in Kenya is 45%, while the rate for non-resident corporations is 32.5% of the profits excluding dividends received from resident companies. There is a capital gains tax of 35% of the capital gain realised on the transfer of chargeable property.

New investments enjoy a number of generous tax reliefs in Kenya. In addition to expenses wholly incurred in the production of the income, various other deductions for the purpose of income tax are permissible including annual deductions for certain classes of capital expenditure incurred for business purposes. Industrial buildings such as factories, are allowed to deduct 2.5% annually of the expenditure incurred on their construction, or an increased deduc-

tion where the life of the building is less than 40 years. For hotels the deduction is 4%. Plant and machinery are allowed 12.5% to 37.5% on the written down value. In mining ventures, 40% of the expenditure in the first year is eligible for deduction, thereafter 10% in each of the successive six years. In farm works, 30% of the capital expenditure is allowed to be deducted in the first year, and each of the four following years. An initial investment allowance of 20% of the cost of new industrial buildings, plant and machinery initially placed therein, is allowed to investment in manufacturing outside Nairobi and Mombasa.

VI. Investment Priorities

Agriculture is the backbone of Kenya's economy, and the country depends heavily on agricultural products for its foreign exchange earnings. The emphasis on investment priorities at present is to shift from import-based projects into industries that make heavy use of labour and other natural resources of the country. Abundant labour is available and there is a tradition of harmonious employee-employer relationship in Kenya. The aim of this new approach is to utilise as much as possible of Kenya's own materials in order to create employment opportunities, save on expensive imports, increase valuable exports and generate wealth and expand all kinds of supporting businesses in the countryside where the bulk of the population resides.

VII. The Role of the Central Bank

The Central Bank is the principal financial institution in Kenya, with technical powers of credit creation and legal powers to regulate the operations of commercial banks. Apart from being a source of expert advice to the Government on monetary policy and fulfilling the function of lender of last resort, the Central Bank acts as banker to the Government, and is the administering agent of the national debt. In its relations with the money and capital markets, it is the means of encouraging the development of local financial institutions and of guiding their operations to meet the broad economic goals of the country.

The Central Bank thus supports the Government investment objectives specified above. It firmly believes that available limited foreign exchange should be used for productive purposes. The Bank also believes that economic production must be soundly based and industries should have a strong local input of labour and materials. It should also be undertaken by Kenya citizens, whenever this is feasible. As a conscious policy, therefore, the Bank is limiting the amount of credit that can be borrowed by foreign controlled companies engaged in marketing and distribution. For foreign owned manufacturing companies and corporations based in agriculture and tourism, the borrowing limits are not only liberal but these sectors are also given every encouragement for investment. It should, however, be noted that Kenya's exchange control is mild and liberal in comparison with many developing countries. Moreover, the Central Bank has usually been quite flexible in the way it administers the controls.

Kenya has a fairly well developed financial infrastructure which is dominated by 14 commercial banks operating around 273 branches, sub-branches and agencies, besides mobile banking units. This gives around 35 banking offices per one million of the population or one banking office for every 40,000 people. Some of the banks in Kenya have international links and the big four are the Kenya Commercial Bank, Barclays Bank International, Standard Bank, and the National Bank of Kenya. Together they account for about 76% of total bank deposits in the country. The remaining ten are the Grindlays Bank International, Bank of Baroda, Bank of India, First National Bank of Chicago, the General Bank of Africa, City Bank, the Co-operative Bank and the Bank of Credit and Commerce International (Overseas) Limited. A fifteenth bank, Habib Bank A.G. Zurich, has been registered and will shortly be opening its offices in Kenya's booming capital city.

Kenya also has a diversified system of non-bank financial institutions consisting of a post office savings bank, housing finance companies, hire purchase firms, industrial development banks, development corporations and several insurance companies. Many of these institutions solicit deposits from the public which are not disposable by cheque. The lending activities of these institutions are more specialised than those of commercial banks; yet they do exert some influence on the money supply in the course of their lending activities (though that influence is not as pervasive as that of commercial banks).

The monetary policy pursued by the Central Bank aims at managing the financial system in such a way as to contribute to the Government's objectives of increasing the level of employment and investment and reducing the rate of inflation in the domestic economy. During the twelve years that the Central Bank has been in existence, Kenya has maintained sound money, i.e., money that is an acceptable and relatively stable medium of exchange and standard of value, and a dependable store of wealth. Available evidence shows that the Kenya currency is not only sought after and held by our own people but is also desired by nationals of neighbouring countries. It is in fact trading at a substantial premium in border areas. The economic growth that Kenya has achieved since independence owes a great deal to the sound currency that is circulating within the economy.

In conclusion, it may be said that Kenya offers attractive opportunities to investors both local and foreign, seeking fast and profitable opportunities. It has a large surplus of labour and a tradition for political stability and economic pragmatism.

Kenya's outstanding reputation for stability and efficiency has played a very significant role in the expansion of her economy. The Government's consistent policy measures have stimulated an orderly and rapid industrial development which has led to a gradual transformation of the economic structure. Domestic resources have provided a sound base for the development of industry. The search for new profitable opportunities for further exploitation of local resources is a major priority.

KENYA IV

INVEST IN KENYA WITH ICDC

We are one of the largest financial institutions created by the Kenya Government for the purpose of promoting rapid industrialisation in Kenya. We enjoy the full confidence of our people as well as that of the world business community.

Since Independence 15 years ago, the political stability prevailing in the country has made Kenya an ideal country for investment. For example—we have established 60 joint ventures with international and local investors. These investments are in the various areas of the Kenya industrial sector including mining, textiles, steel rolling, tyre manufacture, vehicle assembly, pulp and paper, pharmaceuticals, vegetable dehydration, plastic goods, corn starch, and many others.

The Corporation invites businessmen and Corporations from all over the world to invest in Kenya and will be pleased to provide information and guidance on possible areas of investment.

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Import curbs possible

THE LARGEST overseas trade fair ever staged by Kenya took place in New York last month. The aim was both to attract new foreign investment and, perhaps even more important, to give Kenya's exports a sorely needed shot in the arm.

In recent years the country's overall export performance has been disappointing, although high prices and production of tea and coffee have had an ameliorating short-term effect. The break-up of the East African Community last year has added to the export difficulties.

One indication of the sluggish performance is that between 1972 and 1976 exports are estimated to have grown by about 27 per cent a year, but most of this was due to price rises and only 1.7 per cent to volume increase. Nor did exports show any volume improvement last year, apart from tea and coffee.

It is argued, however, that last year's poor export performance is in part attributable to high domestic demand and to a substantial amount of smuggled exports to Uganda.

The tea and coffee boom of recent years has provided the country with a breathing space. Kenya's terms of trade improved by 20 per cent in 1976 over the previous year and was restored to the 1972 level, thanks primarily to the very high price of coffee.

Continuing high coffee and tea prices, together with record production of both crops, were also largely the cause of the estimated 47 per cent rise in the value of Kenyan exports last year over 1976—from KES18m to KES468m. With imports up by an estimated 32 per cent to KES533m, this left the country with a visible trade deficit of around KES14m, down from KES17m in 1976.

Kenya has traditionally run a substantial direct trade deficit, with earnings from invisibles, above all tourism, reducing this but still leaving an historical deficit on current account. One unusual feature of last year's exceptional performance was the recording of a small current account surplus.

However, falling tea and

coffee prices mean that Kenya now faces a deterioration again in terms of trade and the likelihood of a serious trade deficit by the end of the year (possibly of more than KES200m), which could rise further in 1979 and 1980 unless strong measures are taken to curb imports. It is therefore possible that before the end of the year Kenya will impose restrictions on imports, which were showing a worrying rise in value towards the end of last year.

Britain remains the country's largest trading partner and would be affected more than most others by any such move. Excluding oil imports, Britain last year accounted for 23.6 per cent of Kenya's imports by value, with Japan holding 16.7 per cent of the market and West Germany 13.6 per cent.

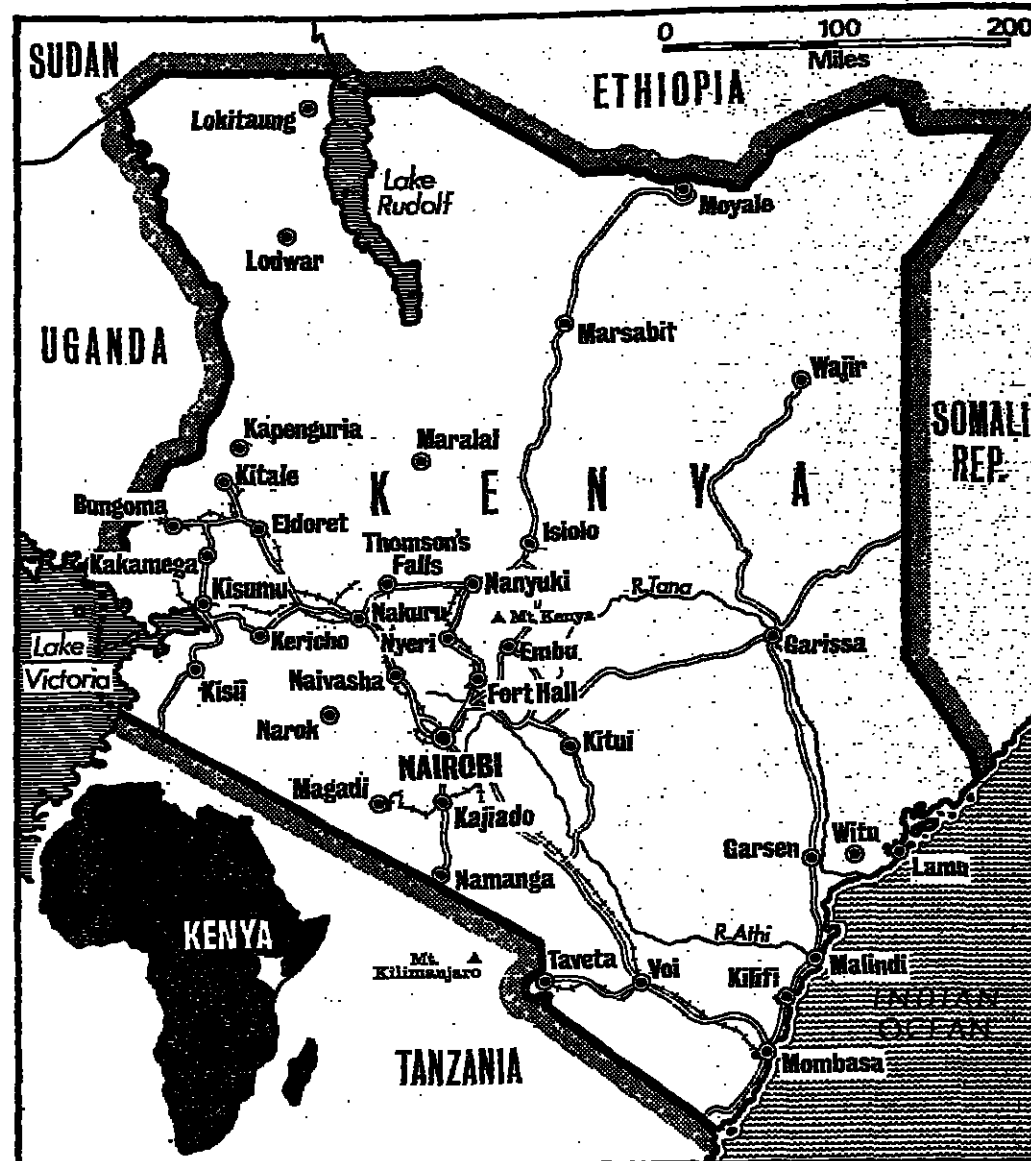
During the past two years West Germany has overtaken Britain as Kenya's largest export market, largely because of its demand for coffee, although a significant proportion of Kenyan exports to German ports may in fact be re-exported to other destinations in continental Europe.

Balance

A significant feature of Anglo-Kenyan trade in 1977 was that for the first time the bilateral trade balance swung in Kenya's favour because of high tea and coffee prices. British exports to Kenya amounted to KES5m while UK imports from the country were worth KES12m.

Tanzania used to be Kenya's fourth largest export market and the loss of this trade through the break-up of the East African Community and the closing of the common border was a tough blow.

In the short term, domestic demand, the growth of new export markets and a rise in exports to Uganda, the third partner in the Community, have helped offset the loss of the Tanzanian market and that of Zambia. (Kenyan goods bound for Zambia are by and large transmitted through Tanzania.) But a significant impact on Kenyan exports could still



materialise unless the border is re-opened, and it is not clear whether this is likely in the immediate future.

Kenya and Tanzania are still both angry, each in large measure attributing to the other the collapse of the Community with its common market and shared transport and communications corporations.

The Community, which came into existence in 1967, collapsed

last year when the three States with its African socialism, failed to approve the 1977-78 budget for the partnership's General Fund services. However, this was largely no more than confirmation of an existing state of affairs. It was in February last year that the Community effectively reached the point of no return when the jointly run East African Airways Corporation collapsed under a mountain of debt.

Kenya, which had financially carried the airline for a long time, refused further support, grounded the fleet and immediately launched its own international airline. Tanzania responded by closing the border and impounding Kenyan light planes and tourist vehicles.

It is probably impossible to attribute blame for the collapse of the Community or to look back and find a definite historical point in time to date its decline.

But one contributory factor was the differing political ideologies of Kenya with its free enterprise system and Tanzania

M.D.

Crops meet problems

PAUL NJORGE is building a new house. A tea-growing smallholder in Kenya's Central Highlands, he lovingly shows you over the four-roomed stone bungalow which is going up alongside his present timber homestead.

Mr. Njorge is one of the 115,000 Kenyan smallholder tea growers who, together with small-scale coffee planters, have benefited greatly from the steep rise in the world market price of these two commodities in 1976 and 1977.

A new house is Mr. Njorge's biggest windfall gain. But he has been able to pay for a barbed wire fence around his small cattle pen and a few years ago tea money enabled him to pay for a borehole to be sunk on his land. His neat clothes (wellington boots, grey flannel trousers, shirt and cardigan) are in marked contrast to the scruffy garments his barefooted neighbour wears.

His neighbour has never farmed tea and now bitterly regrets it. He follows you round Mr. Njorge's new house, clearly envious. The neighbour grumbles about his children, who, he complains, were not prepared to help him plant any tea. They will live to regret it, he says.

Coffee and tea are not only important for the individual farmer, they are vital for the nation, being Kenya's two major export crops. Last year coffee exports brought in KES264m in foreign exchange and tea KES71m, together making up nearly 60 per cent of foreign currency earnings. Admittedly, this was a year of unusually high prices and production. In 1973, a rather more typical year, coffee contributed 29 per cent of export earnings and tea just under 14 per cent.

Coffee production has grown steadily over the years from 41,000 tonnes in 1964 to 80,000 tonnes in 1976, with smallholders and large estates now each accounting for about half of the output. Last year the industry was very lucky—favourable weather conditions helped boost production to around the 100,000 tonne mark at a time of very high prices.

This year, however, the outlook is not so good. Not only have the coffee prices fallen on the London terminal market

from their peak of over £4,200 a tonne in March last year to about £1,500 a tonne now, but Kenya's production is expected to be down by a massive 25 per cent, to around the 75,000 tonne mark. One major reason is very heavy rains which have affected coffee bush flowerings. Early projections suggest next year's crop may be as low—or even lower—than this year's. The industry's prospects over the next few years appear to be mixed, unless, of course, disaster again strikes the Brazilian crop. While coffee market prices are falling, the cost of inputs, such as fertilisers, is not and there is a danger that smallholders may neglect their bushes because of falling returns which would in turn affect total output.

Disease

Disease is at present not a problem. The last serious outbreak of coffee berry disease was in the late 1960s and a recently discovered bark disease seems to be well under control.

There are plans for a relatively small increase in coffee acreage and for an improved infrastructure for the industry, but both these projects could be hit by the price fall. And looming on the horizon is the possibility that international

CONTINUED ON NEXT PAGE

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KENYA V

Industry needs to find new markets

KENYA HAS ENJOYED a remarkable rate of industrial development since independence, making it the most industrialised of the non-oil producing independent African states. Last year, stimulated by record levels of internal demand and new capacity coming on stream, output in this sector rose some 12 per cent in real terms and the pace was sustained into 1978.

But the comment last June in the 1977 economic survey—that medium term prospects need to be reappraised—remains valid. Industry is approaching the limits of the "soft" post-independence option of import substitution. If the momentum of the past is to be maintained, new export markets must be found. "Otherwise," warned the survey, "there is a danger that the expansion of the manufacturing sector... may falter."

The volume growth of merchandise exports between 1968 and 1976 was only 2 per cent, while import dependence (defined as the ratio of merchandise imports to GDP in current prices) has not been significantly reduced. At present only about 8 per cent of manufactured products are exported.

The emphasis in the years to come, say officials, must be on export-orientated industries looking to markets outside East Africa. A comprehensive reassessment of industrial strategy is, it seems, under way, and the results should be seen in the forthcoming development plan for 1979-84. The main points are likely to include:

- A differentiated and increased export compensation scheme.
- Greater efforts to ensure a regional distribution of industries.
- Use of appropriate technology.

- Rationalisation of the tariff system.
- Greater use of domestic resources in place of imported items.
- More effective backing of small-scale enterprises.
- Encouragement of a labour intensive approach.

Efforts are already being made in some of these areas. For example, both the World Bank (through a \$10m credit from the IDA) and the EEC are assisting Kenya Industrial Estates in setting up factories for the smaller African businessman, and workshops in rural areas.

The existing export compensation rate of 10 per cent of the FOB value of the goods, provided the import content does not exceed 70 per cent, has proved ineffective. There are delays in payments, sometimes as long as six months, say businessmen. What they are pressing for is a more speedy payment in the form of a sliding scale according to import content.

Difficulties

Rationalising the tariff system will present considerable difficulties. Under the existing conditions industry is given little incentive to increase their efficiency and often the result is unnecessarily high prices.

Yet at the same time, there are often complaints from industrialists and trade unions about the threat to factories and jobs from foreign competition. Adding to the Government's difficulties in rationalising tariffs is its own stake in industry, through three public agencies—the Industrial Commercial and Development Corporation (ICDC), the Industrial Development Bank, and the Development Finance Company of

Kenya (DFCK). The first two are directly controlled by Government.

Understandably these public sector agencies will be reluctant to see any change in policies which protect them. Private business has realised this, hence the tactic of welcoming Government participation as a form of insurance against a lowering of protection of their particular business.

Despite these and other problems, it should be said that the new development plan will take off from a sound industrial base. Although food processing continues to be of major importance, there is an impressive and widening range of industries—textiles, chemicals, paper, cement, soap, glass, footwear, tyres and vehicle assembly plants.

Some 10,000 commercial vehicles will this year roll off the assembly lines at Kenya's three plants—Leyland at Thika, General Motors in Nairobi and Associated Motors Assemblers (a local consortium consisting of Inchcape, Mackenzie, Lounho and the Kenya Government) at Mombasa.

Apart from employing about 1,500 people, the plants have given rise to a growing number of service industries. These now include batteries, tyres, paint, wiring harnesses, trim, mats, glass, canvas hoods—and radiators and exhaust systems will soon join the list of local products.

Unfortunately the textile industry, an investment of over KSh40m and employing nearly 20,000 people, has been undergoing severe difficulties which led to the collapse of the Nanyuki Textile Mill last December.

The authorities placed most of the blame on "dumping" of textiles from the Far East, and banned import of all second-hand clothing and all textiles similar to those produced in Kenya.

But to make up for Nanyuki there is a string of recent projects which are doing well, and others are about to come on

stream. The KShm Kenya Furfural Company at Eldoret will manufacture furfural, acetic and formic acid from maize cobs.

In Kisumu, Western Kenya, there is a KSh2.6m 51 per cent Government owned plant which will produce alcohol, brewers' yeast, vinegar and citric acid. Cadbury Schweppes is building a KSh1.4m soft drinks factory at Eldoret, while a fertiliser plant is due for completion at Mombasa where East Africa Breweries is building a new brewery.

The examples illustrate the range of the country's recent industrial development. Kenyans are playing a major role in new developments but there has been a marked change in this role over the years.

Their pre-independence base was the agricultural smallholding, but after independence the effect of measures such as trade licensing, Government-controlled financial institutions, and Government directives on allocation of credit, led to increased Kenyan activity in other sectors. In particular these were real estate, passenger road transport, and a growing share of the hotel and restaurant business.

The main areas which Kenyans have yet to dominate are construction, financial services and manufacturing—due to limitations of capital and expertise. But both obstacles, in particular the former, are being overcome.

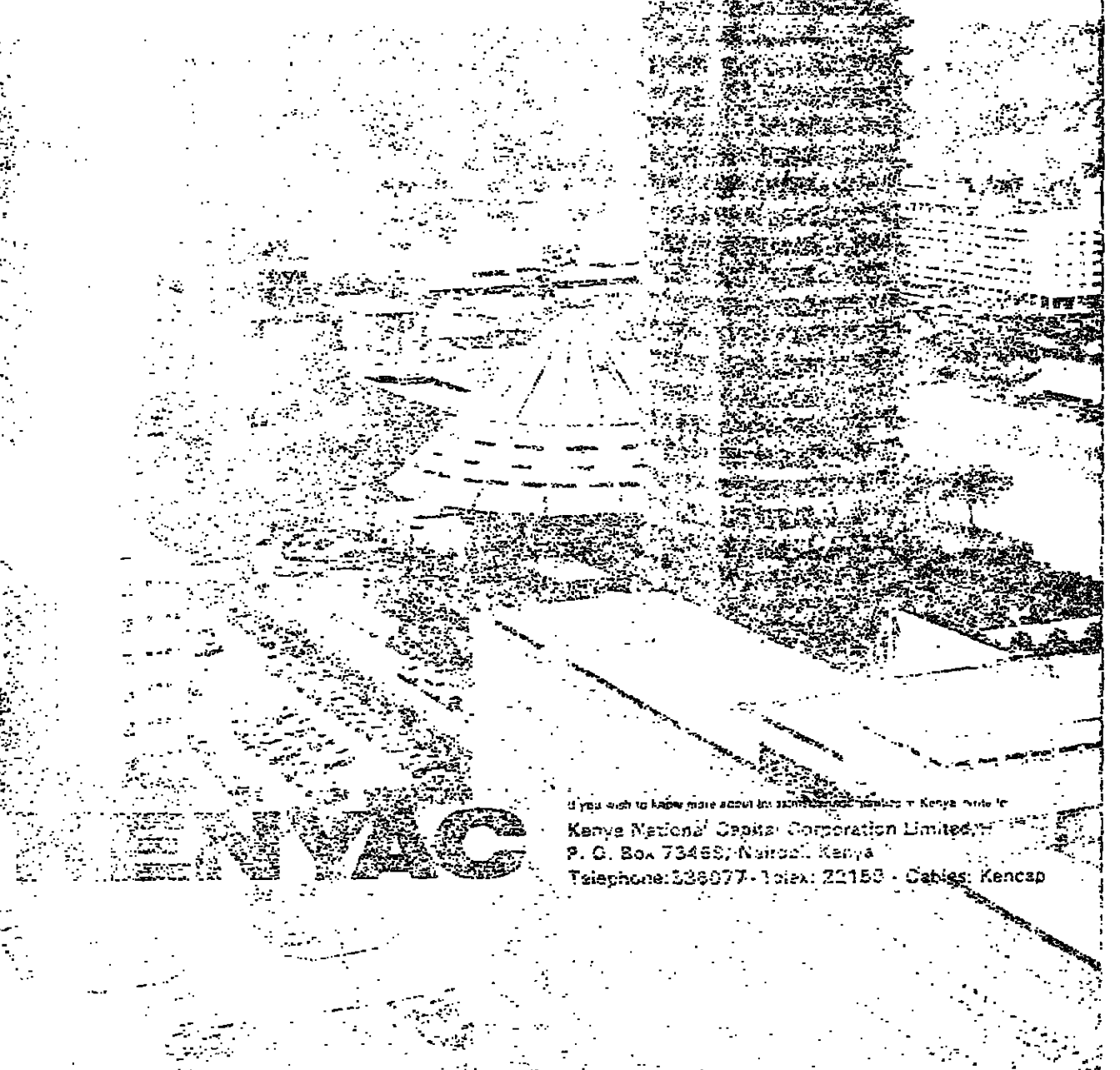
Financial syndicates, State economic institutions and merchant and industrial banks—such as the Industrial Development Bank (IDB)—are providing the means for increasing Kenyan access.

Currently business is booming for Kenyan businessmen and their foreign partners. But as the impact of high coffee and tea prices recedes and domestic demand for their products inevitably falls, they will have to make greater effort to find export markets—the major challenge in years to come," as industry Minister Elud Mwamunga puts it.

M.H.

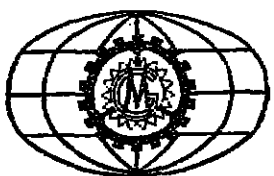
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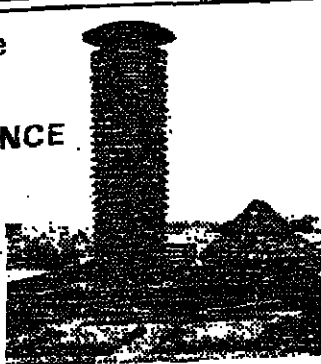


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Crops

CONTINUED FROM PREVIOUS PAGE

coffee export quotas might be imposed again.

The rains which have so seriously hit the coffee crop have had the opposite effect on tea. Production is expected to be significantly up this year on 1977, which was itself an excellent year—production rose to 86,000 tonnes of made tea, a 39 per cent rise on 1976. However, this year's rise will not be as steep as it might, since the rains have meant difficulties in getting the crop to factories along muddy rural roads.

After years of virtually stagnating in real terms, tea prices rose sharply on the back of the coffee boom but have also fallen sharply—last month the average price of a kilo at one Mombasa auction was Ksh 11.74, down more than half from the Ksh 24.96 at the same time last year.

Reasonable

Kenyans expect that the price will remain above the 1976 level for the remainder of this year and the long-term prospects appear reasonable.

The organisation of the smallholder tea section is perhaps the most impressive of all branches of Kenyan agriculture. In the early days of the industry, many cynics maintained that tea was just not suited to smallholder production but Kenya has proved them wrong, largely because it has set up a very well integrated production structure, with a particularly efficient field service. Production per acre is still significantly higher on the large plantations, which last year produced 61m kilos compared to the smallholders' 25m kilos, but the small man's output frequently fetches higher prices than that of the estates.

The price paid to Kenyan farmers for their tea and coffee is set by the world market price—a rarity in Africa where Governments usually fix a producer price for export crops and then subsidise farmers if the market price is below this or keep the profits if it is above. Pricing policy for other Kenyan products can, however, sometimes present problems.

Pricing policy is, of course, extremely difficult in any country, with Governments having to balance the conflicting demands of producers and domestic consumers. The hazards this can entail are

shown by the current Kenyan maize glut.

In 1976 the Government suddenly raised the producer price of a bag of maize from KSh 65 to KSh 80 and this, coupled with good weather, has now produced a huge surplus. There are estimated to be 3m to 6m bags in storage (Kenya's strategic reserve is some 2m bags) and there is nowhere left to store the maize that is still coming in. Difficulty in off-loading their crop means that farmers have been having to sell to middlemen at a price much lower than the official one.

There is a strong debate going on in Kenya about the possibility of exporting some of the surplus. The Government appeared to be on the verge of doing so at one stage but then pulled back. And the effects of the relatively high maize price appear to stretch beyond this crop.

The production of pyrethrum flowers (used in insecticides) was 13 per cent down on 1976 in the first nine months of last year, which some attribute partly to farmers switching to maize and partly to the rapid increase in labour costs in rural areas.

But such price hiccups apart, Kenya's agricultural base is relatively strong and well diversified. Sugar, for example, has been a considerable success story, particularly the huge out-growers' scheme at Mumias. Kenya is still a net importer of sugar, though the rapid expansion of the industry may leave it with an export surplus by the early 1980s. At present, however, production costs are substantially above the very depressed world market price.

One of the most encouraging areas of agricultural expansion is in the horticultural and tropical fruits sector. Displaying its usual commercial acumen, Kenya quickly realised the potential market in Europe for its beans, pineapples, mangoes, and fresh flowers and production has been growing steadily, both on smallholder plots and large farms.

More horticultural extension staff may be needed to boost output further, but one of the industry's major problems is simply the supply of air cargo space to freight the produce to Europe. Lack of southbound cargo from Europe to Kenya can make the Kenya-Europe leg uneconomical for the airlines.

M.D.

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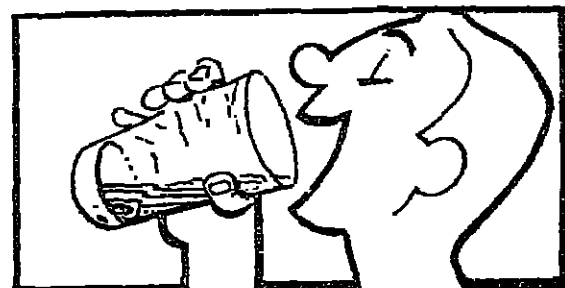
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KENYA VI

Attracting investment



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ASK KENYA'S Minister of Commerce and Industry, Eliud Mwamunga, about investment opportunities in the country and he is likely to begin his answer by handing across two booklets.

One is a glossy 60-page guide, "Your Business Partner in Africa," which among other things sets out incentives, procedures, taxation rates and plant location policy. The other is a regularly updated cyclo-styled survey of potential projects. The latest one gives information ranging from the number of laboratory systems imported annually to a brief summary of a proposed KE20-£25m mini-integrated steel plant at Mombasa with a capacity of 250,000 tons a year.

This efficient and imaginative approach is one reason for Kenya's ability to have attracted British and U.S. investment of £80m and \$180-200m respectively.

Not foreign investment—mainly from Britain and the U.S. but also from India and Western Europe—is all, says Ministry of Finance officials, because incoming capital tends to be matched by the outflow of profits and dividends. But reinvestment of profits amounts to some KE40m a year.

Ask foreign businessmen here about the appeal of Kenya and almost invariably they begin by pointing to the past independence record of political stability, and an ability to combine an official commitment to "African Socialism" (there are over 50 parastatal bodies and about 40 firms in which the public sector has a majority control) with capitalism.

And in addition to a network of commercial banking services there are several government financing organisations which go out of their way to encourage foreign investment. Combine this with an ample supply of labour, a well-developed infrastructure and an enterprising class of Kenyan businessmen and one can see why the country has attracted some of the leading names in British industry.

At the heart of this policy is the Foreign Investment Protection Act 1964 which among other things guarantees full and prompt compensation should property be compulsorily taken over.

Once a potential investor has satisfied the Ministry of Finance that the project meets basic criteria: raises the national income, brings new technology, creates jobs, increases exports or reduces imports, and diversifies the economy—the Minister may issue a Certificate of Approved Enterprise.

This will permit the remittance of after-tax profits, an approved proportion of the net proceeds of sale, and the principal and interest of any loan specified in the certificate.

There are other incentives. Newly established companies can delay the year in which tax and profits will start, and deductions for capital expenditure can be made at the following percentage of initial value: hotels 6 per cent per annum, industrial buildings 2.5 per cent per annum, factory machines 12.5 per cent per annum, trucks and tractors 37.5 per cent per annum.

Allowance

In an effort to encourage industrial development in smaller centres there is an initial allowance of 20 per cent of the cost of industrial buildings, plant and machinery for industries sited outside the two main cities, Nairobi and Mombasa.

Local authorities will provide land, especially in rural areas, for industrial projects at low rates, and Kenya Railways Corporation also provides land if the site is served by rail. Tax rates are 45 per cent of taxable profit for companies resident in Kenya, 52.5 per cent for non-resident companies. Dividends are subject to 15 per cent tax, loan interest 12.5 per cent, management fees 20 per cent and capital gains tax 35 per cent.

Kenya Industrial Estates, a subsidiary of the Government-owned Industrial and Commercial Development Corporation (ICDC) finances industrial estates in Nairobi, Mombasa, Kisumu, Eldoret and Nakuru.

and also carries out feasibility studies of plant sites.

However, earlier this year the Minister of Industry indicated that the KIE programme was aimed mainly at the small African businessman. He spoke of his concern about "the tendency of non-citizens to duplicate projects already covered in the Kenya Industrial Estates programme," noting that he had on several occasions called on our larger industrialists to leave the small-scale sector to African industrialists—but it seems this has fallen on deaf ears.

The minister warned that "Government will critically scrutinise all applications for raw materials and machinery imports which may seek to duplicate KIE projects."

As well as ICDC there are two main Government-sponsored development banks—the Industrial Development Bank (IDB) and the Development Finance Company of Kenya (DFCK). IDB, apart from drawing on local sources of finance, has links with the German Development Bank, the World Bank and the EEC financing institutions for term loans and machinery credits, mainly to finance the foreign currency component in industrial projects.

DFCK is jointly owned by the Kenya Government (through ICDC), the Commonwealth Development Corporation, Netherlands Overseas Finance Company and the German Development Corporation. It was formed in 1963 and has since invested over K11m in 71 projects.

Conditions affecting local

manufactured goods, with higher rates on cars and luxury items. New industries may also be granted administrative protection by import licensing. The Kenya External Trade Authority (KETA) established in 1976 is a government sponsored body leading Kenya's export drive, publicising Kenyan products abroad and carrying out surveys of foreign markets. One of Kenya's attractions in the past has been its position in the East African Community, the association with Tanzania and Uganda which ended last year. The closure of the Tanzanian border lost Kenya what was its fourth biggest market in 1976, and also ended access to Zambia.

Sudan will help fill the gap, but the Government is also

Policy

Overall Government policy is to move from import-substitution industries to those making greater use of domestic resources. Hence Kenya is looking for investment in areas such as meat processing, dairy products, canning and food processing, sugar, cotton and mixed fibre textiles, wood processing and furniture, chemicals, insecticides, cement, machinery manufactures, and others.

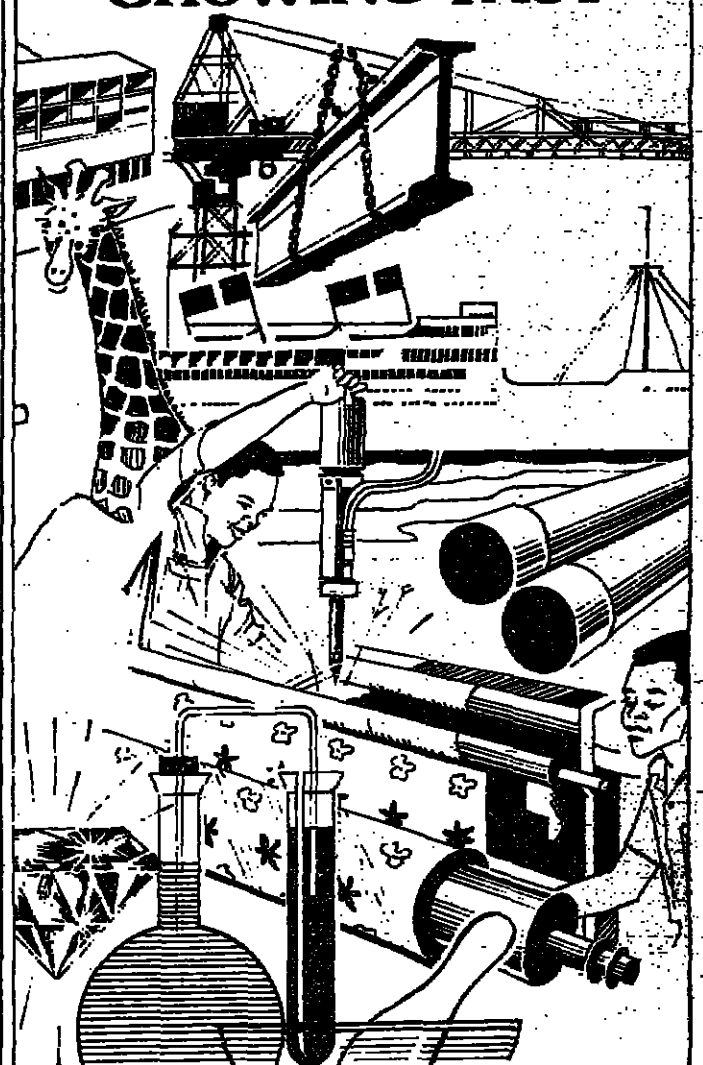
Conditions and incentives for investment in the tourist industry are similar to other sectors, except that hotels in nature reserves and game parks must be at least 51 per cent locally owned. The Kenya Tourist Development Corporation deals with investment in the industry.

Protection to local industries is provided by tariffs of up to 30 per cent of the value of

looking for markets in the Middle East, Europe and North America—hence last month's Kenya exhibition in New York. As a signatory to the Lomé Convention, Kenya enjoys tariff and trade concessions in the EEC markets, and under the Generalised System of Preferences Kenyan exports may receive preferential duty treatment for certain manufactured goods and agricultural products in the U.S. and Canada, Australasia, Eastern Europe, Japan and Scandinavia. There is no law governing local participation in companies but as the investment guide tactfully puts it, "Investors would find it to their advantage to do so."

M.H.

KENYA IS GROWING FAST



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Two KIKUYU ladies, mother and daughter, arrive on our doorstep twice a week, and, by arrangement, dump their load of fresh fruit and vegetables from a car in our yard. From this base they set off to hawk their wares round the houses in the area.

The fruit and vegetables come either from their little shamba, or plot, or are bought in the market. It is a tough job, and they set off on their rounds with heavy sacks on their backs, coming back at intervals for refills.

They are just two more of the tens of thousands of hawkers operating one man businesses round Nairobi, in both the prosperous and the poor areas. In never-to-be-forgotten jargon, created by the ILO in a report on work and labour in Kenya, they belong to the "informal sector." The ladies might be surprised to know that this is how they are referred to in a series of reports.

The ILO regard this class of the smallest businessmen and women as of very great importance to the economy, specially in the rural areas. How are they getting on?

In spite of the Sessional Paper on employment in 1973, when the Kenya Government recognised the essential role of the informal sector in national development, little appears to have been done to help this class of working poor with the kind of economic encouragement given to bigger businesses.

Disrupted

They are still harassed by city councils. Sometimes shanties erected by them as workshops, boutiques (if that word can be used in this sense), little eating places and kiosks get swept away in sudden police blitzes on the slums which continually fester round Nairobi and Mombasa. Their little businesses are disrupted, but one characteristic they have in common is tenacity—and survival. They always spring up again for the simple reason that they have to live and this is the only way they know.

Not by any means, as the ILO recognised, must they be regarded as "unemployed." In fact they are most gainfully employed.

Every visitor to Nairobi has noticed the kerbside rubber stamp makers, the shoe shine boys who proliferate at every street corner, the kerbside seller of secondhand Playboys, and Penthouses, the man who tries to sell you elephant hair bracelets, the al fresco hairdresser with his salon under a tree, catering for both men and women, the bicycle repairer, the "garage" in a waste lot which specialises in the has to be beat-up cars, charcoal sellers. All these little businessmen belong to the "informal sector."

They may not earn enough to pay taxes—say KE25 to KE30 a month among the poorer—but their money is good and goes round and round.

It may be that real recognition is coming for the informal

sector, for the theme of the coming 1979-83 Development Plan, which sets out Kenya's development strategies, is to be the alleviation of poverty and more attention is to be paid to the informal sector to promote its growth.

Moreover, the new Education Report, referred to elsewhere, urges the Government to accelerate the enforcement of the necessary legislative and administrative measures to abolish harassment of the informal sector and instead facilitate its growth.

It has been recognised for a long time that the informal sector is highly productive and tends to contribute to social stability. It is based on self-employment, and the little businesses are often handed down from father to son or daughter. Many roadside workshops employ one or more workers.

Their goods and services are generally not aimed at the more prosperous sections of Kenya society, but to the people with small incomes, for, in theory at any rate, their services are cheaper.

There seems no question that if the Government is to integrate the informal sector into the process of development it should grapple with the problem very seriously, providing proper conditions such as water and sanitation in which to operate on a permanent basis. A recent cholera scare in Nairobi and Mombasa brought a justifiable ban on all food kiosks operating in insanitary shanties. Many were put out of business, but it was inevitable that they should pop up elsewhere in the town.

The informal sector is an integral part of Kenyan society, as it is in many other countries, and it cannot be spirited away at the wave of an economist's wand.

No amount of pressure from the formal sector can uproot such determined and enterprising men and women, and the economic planners must inevitably get round to recognising them as an economic force to be reckoned with. The ILO team, which did so much work on the informal sector, could not estimate what its earnings were, but found there were at least 120,000 freelance traders in Nairobi and Mombasa, and perhaps 140,000 in the rural towns and villages. Most are perhaps only marginally productive, but it is better to have people earning and spending than standing round idly in unemployment queues.

The Government is now obviously recognising that this sector of the economy continues to grow under its own motivation, with little or no support, largely due to the predominant influence of the modern sector. In view of the mounting evidence of this sector's usefulness, especially in the rural areas, it will increasingly come to be recognised that it plays an essential role in national development, and action is likely to be taken to give these people credit facilities and management and technical services.

John Worrall

Switch in education

A SWITCH of emphasis from formal education to "relevant" or "appropriate" education, intended to equip young people for the "realities of life" in a fast-developing country, is now under consideration in Kenya with the publication of the impressive report of the National Committee on Education Objectives and Policies.

The report, long awaited, provides a plan for Kenya's rapidly diversifying educational needs to the end of the century and beyond. It is written against a background of rising urban employment among graduates of the formal system. Paradoxically, major areas of development in rural areas especially are seriously hampered by a lack of workers with the appropriate attitudes, knowledge and skills.

While retaining the formal system in a more limited and less expensive form, it is proposed to make education generally more appropriate to the needs of the tens of thousands of young people growing up in a developing economy where technical, technological and artisan skills will be increasingly in demand, particularly in the rural areas, if money incentives can be provided there.

Strongly emphasised is the crucial need to train better and more qualified teachers, with varying aptitudes, especially for the primary schools. At present most teachers brought up in the formal academic system are only fitted to teach inside the system.

With the increasing need to improve growth in the rural areas and the neglected informal sector of the economy, there is new emphasis on creating self-employment opportunities and better job rewards to attract school leavers. It is emphasised that the public will have to be educated away from

the prevailing attitude that formal education automatically leads to high wage employment in the modern, urban sector.

"Youth will need to be exposed to the realities of work while at school," says the report. Vocational training will need to be oriented towards rural self-employment.

Sharp emphasis is to be placed on agriculture-related skills, even in the early years of schooling, because it is on agriculture and agro-industry that Kenya's economy will continue to depend. Such training is not generally found in the formal system.

Kenya has achieved impressive results in providing primary, secondary and tertiary education for its people in the 14 years since independence. Certainly it is a better record than most other African countries.

Educational opportunities for the mass of the people were extremely limited before 1963. The country needed to produce in a very short time a cadre of skilled manpower to take over colonial jobs in many

crucial areas of the administration, a task which strained Kenyan resources to the limit. An important aspect of Kenya's educational aims at that time was, and still is, to promote national unity in a diverse communal and tribal background.

In 1963 the enrolment in primary schools was 891,553. This has jumped spectacularly to about 3m today, about 90 per cent of all eligible children. In 1963 there were 30,120 enrolments in 150 secondary schools, against today's 280,388 in 1,280 schools. Teachers have jumped from 17,000 to just over 100,000. Nairobi University, created in 1970, has 5,000 students. The Kenya University College was born in 1972 as a secondary school teacher training college and has 1,200 students.

There are two major Polytechnics, at Nairobi and Mombasa, with 4,240 students between them, and several, but not enough technical and teacher training schools throughout the country.

Kenya must be one of the few countries in the Third World which spends one-third of its

budget on education, some run on a Harambee basis with nearly 30,000 students. Many are helped by the Ministry of Education by developing new streams and recruiting or paying teachers.

Another remarkable Harambee experiment fast gaining ground in the rural areas is the "Village Polytechnic," which has grown from the need to provide work opportunities in simple crafts and skills among country boys and girls who have stopped at primary level, or polys who have dropped out. Village polys teach crafts such as carpentry, basketmaking, needlework, agricultural skills, building and home crafts to young people who seek to set up self-employed trades in the informal sector. Local communities raise money, build and set up the schools, using local materials and local skills. There are now well over 200 village polys scattered all over Kenya.

A further development in the Harambee movement has been the growth of "second chance" institutions with the rather high sounding titles of Institutes of Science and Technology, built by local communities to serve their special needs (at the slightly more advanced level than the village polys in crafts and technology). About eight are now in operation.

The growth and encouragement of village polys and the institutes of science and technology, with their emphasis on rural crafts, science and artisan skills, are a significant pointer to the new trends in Kenyan education. Some 90 per cent of the population lives in the rural areas, and one of the biggest problems is to stop the migration from the rural to the urban areas. Jobs, and education for those jobs, must be geared more to the deprived rural areas.

New programmes and curricula are being worked out now by the Ministry of Education for all levels, the emphasis being changed to the sciences, and especially the sciences relating to agriculture and technology.

The little "Village Polys" are to come more into their own. In future they are to be known as "Craft Training Centres," and are to have stronger government support and encouragement.

John Worrall

Banks as an aid to development

AN EFFICIENT banking system has made a major contribution to the success of Kenya's post-independence economic development.

To-day there are 15 commercial banks with over 270 branches, sub-branches and

agencies, as well as mobile banking units. Accounting for over 70 per cent of total bank deposits are the "big four," Kenya Commercial Bank, Barclays Bank International, the Standard Bank and the National Bank of Kenya.

The other banks are the National Bank of Kenya, Grindlays Bank International, Bank of Baroda, Bank of India, First National Bank of Chicago, the General Bank of Netherlands, Habib Bank, Commercial Bank of Africa, City Bank, the Co-operative Bank and the Bank of Credit and Commerce International (Overseas) Ltd. Three banks—Continental Illinois Bank, Bank of Tokyo and Bank of Yugoslavia—have representative offices in Kenya.

It has been a busy time for commercial banks. The volume of deposits rose from KES58m at the end of 1976 to KES25m at the end of 1977, and their liquidity at 37 per cent became overwhelming.

Money kept voluntarily by the banks at the Central Bank—doing nothing at all," as the Governor, Mr. Duncan Ndegwa put it—rose from KES21m at the end of 1976 to KES53m by December 1977. "Treasury bills which at one time were 0.01 per cent became the only attractive alternative for investment of surplus funds," noted Mr. Ndegwa.

Even at these peak levels no bank announced lower interest rates although generally banks were prepared to make loans at anything from 7 per cent upwards.

At the moment Kenya does not have any organised discount market, but the Kenya National Capital Corporation, owned 80 per cent by the National Bank of Kenya and 40 per cent by Kenya National Assurance Company, and established recently, will be able to provide discount services in bills of exchange, bankers acceptances and government paper. It aims to provide merchant and investment banking services and offer investment facilities for companies' surplus funds, in deposits, bonds, shares and property.

There is also a wide range of non-bank financial institutions consisting of a post office savings bank, housing finance companies, hire purchase companies, two industrial development banks and two locally incorporated non-bank financial institutions, the Kenya Finance Corporation and the Continental Credit Finance Company.

The Central Bank of Kenya was inaugurated in September 1966 under a statute which set out four principal objectives. These are: to regulate the issue of notes and coin, to ensure a sound monetary, credit and banking system and to serve as both banker and adviser to the Government. The Central Bank of Kenya Act stipulates that limits to the total credit that government can take directly or indirectly from the Central Bank.

The conservative fiscal policies of the Central Bank have been an important factor in international confidence. The broad policies have remained the same since independence: to maintain sound money and control the rate of inflation, to check rapid deterioration in the balance of payments, and to protect the key productive sectors of the economy—namely agriculture, manufacturing exports and small African business.

The rate of inflation—around 12 per cent and possibly rising—has become particularly worrying, and last month the governor spoke of his determination to

bring the rate "well down" into single figures.

One cause was the enormous 47 per cent increase in money supply last year as earnings from record coffee and tea crops poured in. Last month, the governor outlined measures to reduce the impact. Overall credit expansion by commercial banks is to be in the region of 22 per cent during the fiscal year 1978-79. After taking into account the expected credit to government, this would limit credit expansion to the private sector to about 18 per cent from July 1978 to June 1979—a sharp fall compared to the 33 per cent expansion in bank credit to the private sector in 1977.

He also stressed the role of commercial banks in the country's policy of shifting development from urban to rural areas.

"The authorities expect commercial banks to help in channelling some of their surplus savings into the development of rural areas instead of transmitting them to urban centres where they are used mainly for financing trade. Commercial banks which are purely urban centred in this country should not expect the authorities to look at their activities with favour in the years ahead."

The most important aspect of this development policy is the provision of credit to African farmers and small businessmen. As in other countries, it is done by encouraging the banks to lend a percentage of their deposit liabilities.

There has been limited success. Despite what the Central Bank described as "excessive liquidity" throughout 1976-77, by June 1977 the Commercial Bank's agricultural credit was only 11 per cent of their net deposit liabilities. Only four of the 14 banks then operating had reached the 17 per cent target. There are signs, however, that the position may be improving. In the quarter ending December 1977, credit to the agricultural sector had risen nearly 22 per cent, pushing up agricultural credit to five points below the 17 per cent target.

The main problems are the comparatively high rate of risk for the banks in lending to smallholders, but equally important is putting banking services within their reach—hence the Governor's warning against "purely urban centred banks."

Nairobi maintains a small but vigorous stock market in which some 70 counters are traded. Not surprisingly, the past year has seen a high level of activity. Transactions on the exchange amounted to 9.3m in 1976-77 compared to 5.9m in 1975-76, while the value of transactions rose KES2.6m to KES20.5m. The index of prices shot up from 197 in June 1976 to 288 a year later, and now stands at around 430.

Very few companies have gone public in the past few years, but the case of the Industrial and Commercial Development Corporation illustrated the potential demand for shares. Towards the end of last year, the company sought to increase its share capital from KSh 6m to KSh 15m by selling 1.2m shares to the public at the current value of 13 Sh per share.

The result was over Sh34m in 11,000 applications, 99 per cent of which applied for less than 2,000 shares each, representing 77 per cent of the amount.

M.H.



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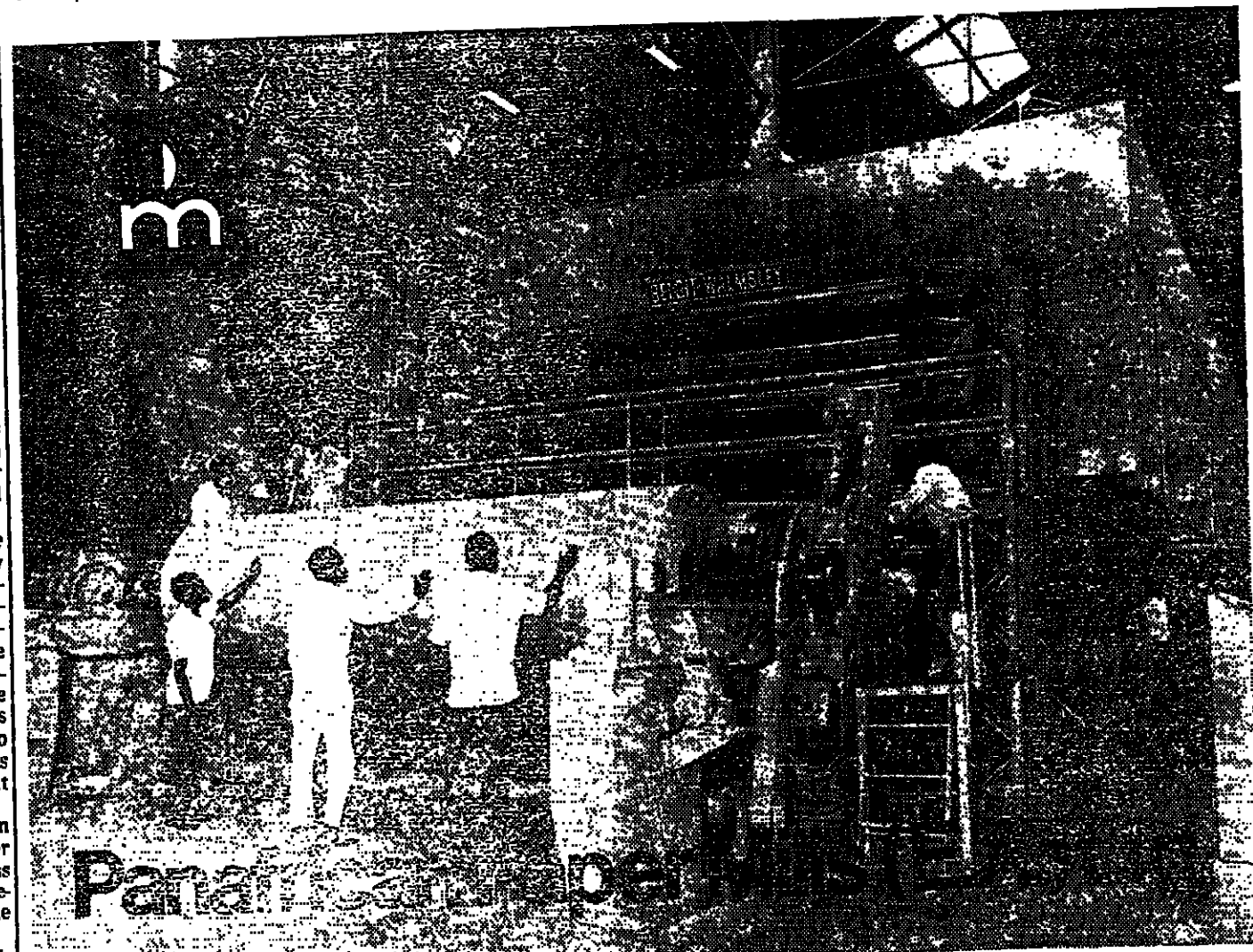
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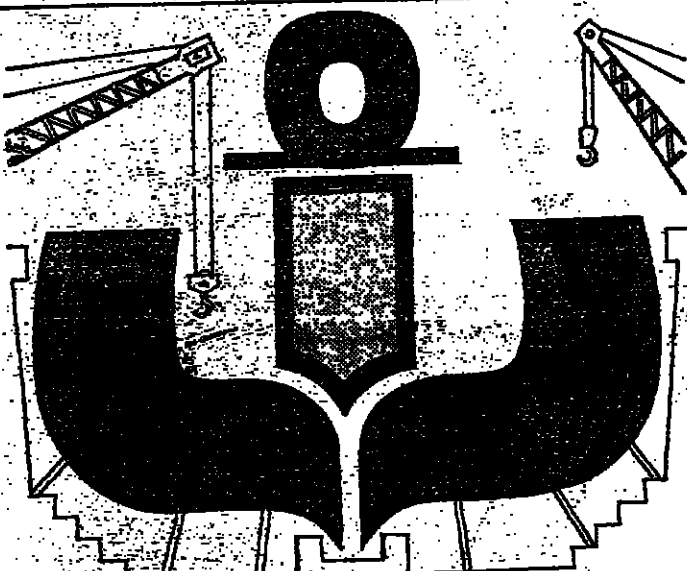
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KENYA'S CLASSIC tourist attractions are still among the finest and most varied in the world. Growing numbers of people come from Northern Europe to stay at luxurious hotels on the sunny Indian Ocean coast. Others come to safari among the game parks where, despite the depredations of poachers, large herds of elephant, zebra, wildebeest and antelope roam, and lucky tourists can photograph lion with their kill. The hunting safari is definitely "out," by law, at some cost to professional hunters and government, and photographic safaris are the order of the day.

Because Kenya knows it has an unrivalled product to offer tourists, and tourists keep coming, there is a tendency towards complacency in government and the tourist trade. The industry is beginning to realise it cannot afford this attitude and, although optimism abounds in some quarters, the going is likely to be tough in coming years.

Kenya is now having to compete hard with other long-haul destinations. Many of them are very attractive, though distances (and therefore air fares) are bigger. They include Hong Kong, Singapore, Bangkok, the Seychelles, Mauritius, the West Indies, and soon, it is forecast, South America.

A keen new competitor is developing in Kenya's neighbour and erstwhile partner, Tanzania. Kenya-orientated tourists can no longer go into Tanzania. (The Tanzanians said with some logic that Kenya was taking the cream), and Tan-

zania is now trying to sell its own wild life attractions, and its own beautiful beaches, very hard in the world market. Thus the Kenya tourist authority is forced to spend much more money on promotion in continental Europe, Britain and especially North America: this year close on K£1m (£1.4m).

Spectacular

Kenya has recently opened a spectacular new airport at Nairobi at a cost of K£30m to cope with increasing numbers of tourists, businessmen, diplomats and official visitors.

The old airport at Embakasi handled 1.5m passengers a year at its demise, compared with 250,000 in 1960. The new airport is designed to handle 1,200 departing and 1,200 arriving passengers every hour. The semi-circular passenger and cargo terminal is unique in Africa and is like only two others in the world.

The head of Kenya's biggest hotel owning and managing chain, African Tours and Hotels, Mr. Henry Daly, says: "We are just right on prices and can compete favourably, but we are having to work harder to maintain present levels."

The Kenya Government's Ministry of Tourism and Wildlife says tourism is still riding high and will continue to do so. The industry is of course having to contend with rising costs in almost all directions, from higher air fares to higher electricity and water costs, not to mention tourist orientated imports like wines and spirits.

This has had its effect on hotel rates, conservatively estimated by KTDC at between 10 and 15 per cent higher in a year.

Others in the tour business, however, are not so happy about rising prices. The Kenya Association of Tour Operators recently expressed concern about "escalating prices," and warned that this trend could adversely affect the industry. Mr. Gideon Kago, the chairman said it was becoming increasingly difficult to sell safaris up country because tourists regarded the hotel rates as "prohibitively expensive."

On the whole it seems to be easier to sell coastal holidays than safaris up country, which takes in the big national parks and game reserves.

Despite these worries, which are not new, Kenya has built up a very prosperous tourist industry, which has brought a great deal of foreign exchange into the country, second only to agriculture. This year, according to Government estimates, it is likely to reach a record K£50m.

Tourism is a sensitive plant and depends a lot on internal economic and political stability. Tourists will not go to troubled places. In the Third World, political stability can be disturbed at the stroke of a pen or the movement of a tank. President Amin's coup in neighbouring Uganda, and its repercussions, destroyed a prosperous tourist industry.

One indication of the sensitivity of this plant is the falling off recently of the American tourist traffic, esti-

mated, at about 25 per cent. "To the Americans, Africa is a dangerous place these days," one tour operator told me. "The trouble is they are weak on geography and African affairs. They think Idi Amin terrorises the whole continent, the guerrilla war in Rhodesia is down the road, and we are right in the middle of the Horn of Africa."

Big Kenya tourist promotions are going on in the U.S.—for instance, the recent Kenya Fair in New York—and it is hoped to bring the Americans back.

The loss of American tourists is compensated for by the spectacular increase in tourists from West Germany, who are now top of the league, followed by British visitors: many others come from Switzerland, Italy, France and Scandinavia. New markets are being tapped in Japan and among expatriates in the Middle East with nowhere to go.

The Germans, the Swiss and the Italians are mostly attracted to the Kenya coast and its fine hotels. Since the recent expansion of Mombasa Airport, the Germans have flown in on weekly flights carrying 500 at a time on cheap package tours.

The past year has not been easy for Kenyan tourism. The break up of the East African Community had big repercussions. With the collapse of East African Airways, the Community carrier, Kenya had to create in a very short time its own national carrier, Kenya Airways.

The break up, we have seen, also led to the closing by Tanzania of the common border, and a complete break with Kenya in tourism. Tour agents, many based in Kenya, used to combine Kenya game and coastal tours with tours of Tanzania's spectacular Serengeti Plains, the Gorongoro Crater and Mount Kilimanjaro. All that has now ended.

Only a few weeks ago the Tanzania Tourist Corporation said the border would remain "permanently closed," as far as tourism was concerned.

For some months Kenya tourism was badly hit by

Tanzania's action. But the situation may now well be working to Kenya's advantage. "The Kenyans have been induced to open up new areas of the country to tourists, on geography and African affairs. They think Idi Amin terrorises the whole continent, the guerrilla war in Rhodesia is down the road, and we are right in the middle of the Horn of Africa."

Kenya is already proving too small for demand. There are plans to open up this magnificent lake, the largest in Africa. There is a growing demand for more lodges and hotels in the Mount Kenya area, and tourism is pushing further north into the desert "painted lands" beyond Marsabit.

One comparatively new trend is the establishment of camps for tourists who like the open air life and want to feel the immediate presence of the bush and its animals and birds: Log fires, a bar, a restaurant and either tents or wooden cabins can come for about K£25 a night per twin tent with full board.

Operators are opening up attractive new circuits. Even isolated Lamu, the "lost island" up the coast near the Somali border with its historic Arab Swahili traditions and architecture is losing its inaccessibility with regular light aircraft communications.

One tour operator is organising tours of the remote islands of the Lamu Archipelago where Arab ruins abound, using small powered Arab dhows equipped with bars.

Kenya scores tremendously by having built up over the years a thorough-going tourist infrastructure. Tour operators abound, many now run by Africans, with fleets of minibuses, aircraft, laid on at the drop of a hat (most country lodges and hotels have landing strips) and trained couriers with a knowledge of the country. Roads have been improved enormously and there are few main centres not reached by a good tarred road; but a lot remains to be done where access to smaller lodges and camps is concerned.

J.W.

The end of the hunting safari

FOR YEARS world conservationists have been sniping at Kenya. Where is all the wild life going? Is Kenya neglecting this priceless heritage? It may be that time will show that Kenya, in the words of the celebrated British elephant expert, Dr. Iain Douglas-Hamilton, is now becoming a "model for Africa" in conserving its wild life. It is not too soon!

Last year the Kenya Government banned both organised big game hunting and the sale of trophies and trophies.

The wildlife conservation issue is crucially important to the tourist industry, to conservationists abroad and in Kenya itself, and to the Kenya Government, whose name has been besmirched abroad for alleged neglect of this priceless heritage.

Take the elephant. And it should be said at once that Kenya is not the only country in Africa to contain large herds of these majestic creatures. They inhabit 35 countries from the west to the east coasts. Dr. Douglas-Hamilton, who lives in Kenya, says almost all elephant herds are diminishing fast.

He estimates that after decades of slaughter the present African elephant population is about 1.5m. Man and his lust for ivory ornaments is the culprit. "The quickest way to get rich quick in Africa is to kill an elephant," a Uganda park warden told Dr. Douglas-Hamilton.

The heaviest concentration of elephants is in Tanzania, which has about 300,000, but this number is falling through poaching.

The next heaviest concentration is in Kenya, which Dr. Douglas-Hamilton estimates to have had 150,000 in 1970, but now has about half that number, largely as a result of poaching. Armed gangs of poachers roam the elephant country, some coming in from Somalia. They are masterminded by ruthless men in the cities who have the means and the network to smuggle the ivory out of the country to the Far East. Almost every week poachers get caught by rangers in the bush or working their spoils along the roads. The big men are never caught.

Rhino horn, sold in the Far East as an aphrodisiac, leads to the slaughter of hundreds of the scarce and shy rhinos. Leopard skins are an even rarer find, and sell for fantastic sums abroad. Zebra are hunted for their beautiful skins.

Poachers

War is waged daily on the poachers by the armed anti-poaching squads run by the Kenya Game Department. The Police have a special anti-poaching unit based up country. The Ministry is now stepping up the war with sophisticated weapons, radio apparatus, vehicles and planes, including helicopters.

The World Bank has recently given Kenya K£10m for improving wild life resources. K£1m of this is going to anti-poaching campaigns.

The whole organisation of wildlife has been taken over by the Ministry of Tourism and Wildlife, which entailed the end of the National Parks in their autonomous form. Some game wardens complain of bureaucracy. Some in the wild life business allege that poaching is organised by unnamed men in the Game Department.

Taking its new responsibilities seriously the Ministry created a new department, Wild Life Conservation and Management Services.

Early last May the Kenya Government took the dramatic step of banning regulated game hunting altogether, although in the past certain species like the elephant, the leopard, the cheetah and the rhino had been protected from hunting. There were 2,482 licensed resident hunters in the country, and some 120 professional hunters operating hunting safaris for wealthy overseas clients.

Gun licences were withdrawn and weapons had to be handed in. For Kenya it was the end of the era of the hunting safari. This step was both praised and criticised: criticised by the pro-hunting groups on the grounds that armed professional hunters and their clients were more effective in warning off poachers than the anti-poaching units, which are still thin on the ground, and that ranchers and private landowners who rented hunting concessions would no longer have the incentive to allow wild life to remain on their property. Somewhat paradoxically, professional hunters are among the most dedicated conservationists.

The Government believes that the ban on hunting will underline its concern about the decline of wild animals. It was felt that the hunting ban would help the Game Department to control poaching, since all those found with firearms would be automatically under suspicion.

Banning hunting without banning the proceeds of hunting was thought to be illogical, so the Government's next step was to put a ban on trophy sales in the curio shops of Nairobi and Mombasa. This was done last December, and began Kenya's biggest ivory rush as the shops disposed of their vast stocks of carvings, trinkets and bracelets. They went for knockdown prices, as did skins, horns and lion's teeth.

All stocks unsold were confiscated by the Government. The question is now: what is happening to the unsold ivory? The Government may be intending to hold the ivory auction sale to end all sales.

The elephant experts know that the final answer to poaching is to smash the international trade in ivory which centres on Hong Kong.

But the elephant in Africa is not only threatened by poaching. He is also threatened by the expanding population. "Where land is used for agriculture it is certain that elephants in the area are doomed, for elephants and agriculture are incompatible," says Dr. Douglas-Hamilton.

Local people cannot regard elephants with much sympathy when they break down fences and trample over crops. The same applies to other species such as the buffalo.

One of game's worst enemies is drought, and losses of wild life ran into tens of thousands two years ago. Now, however, with good rains all over Kenya, bringing green new life to the bush this year the animals have a chance to recover their numbers.

J.W.

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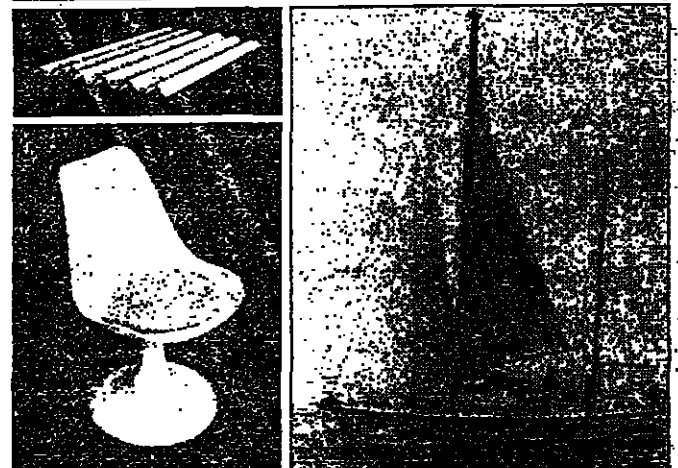
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COMPANY NEWS + COMMENT

Dunhill ahead £0.43m to peak £9.65m

TAXABLE PROFITS of Alfred Dunhill finished the year to March 31, 1978, ahead at a record £9.65m against £9.22m after a rise at the interim stage from £4.36m to £4.6m. Turnover for the full period was well up at £32.50m compared with £37.83m last time.

Earnings per 10p share are shown as 31.1p (31.1p) and a final dividend payment of 6.65431p lifts the total to 37.75531p (7.89886p) net, absorbing £739,000 (£656,000).

The directors state that profits and losses which arise from converting the opening net assets of the overseas subsidiaries at year-end exchange rate, are taken direct to reserves. For the year, the amount involved was a loss of £114,000 (£254,000).

Tax took £3.02m (£4.74m) and comprised, UK corporation tax £2.28m (£3.43m); overseas tax £1.53m (£1.63m) and deferred tax £0.51m (£0.27m). The attributable balance came out at £4.32m (£4.31m) after minorities £0.3m (£1.16m) and after dividends, £5.56m (£5.65m) was retained.

Two new directors for Monk

TWO NEW non-executive directors have been appointed to the Board of A. Monk, the building company in which St. Piran has been showing an unwelcome interest.

The two men are Mr. J. E. Bywater, former chairman and chief executive of Sime Darby Holdings, and Mr. P. W. Robinson, a director of Davy International and chairman of Herbert Morris.

In January this year, Monk refused to accept any representation of St. Piran on the Board.

St. Piran owned 20.33 per cent of Monk at that time but Mr. William Whitnham, chairman and managing director of Monk, said he could see no advantage in having a St. Piran representative.

He commented: "All the present directors have been with the company for a long time and bringing in an outsider would upset the pattern."

Last month St. Piran's stake had reached 2,695,000 shares (25 per cent).

Grays inquiry chief named

THE CHIEF Registrar of Friendly Societies has appointed Mr. Murray Stuart-Smith, QC, as an inspector to inquire into and report on the affairs of the Grays Building Society.

Mr. Stuart-Smith's appointment is in addition to that of Mr. Ian Davison already announced.

HIGHLIGHTS

Full-year figures from Reed International are accompanied by a sharp drop in the dividends and a reduction in shareholders' funds. However, Reed is sounding slightly more hopeful regarding the outlook. Meanwhile, Marley's profits are below expectations and the improvement in France is the main reason behind the 11 per cent increase in profits. Lex identifies the treatment of House of Fraser as an associate at Lenthoe which has added about £5m to Lenthoe's profits. That aside, the underlying trading performance is poor. John Bright shows a significant profits drop though the second half did show some improvement. Invergordon's profits are buoyant and Norwest Holst is also well up. Bilton's prelims contain no nasty surprises and the market can now look forward to the results of the recent revaluation.

Alcan (UK) loan stock conversion

Holders of 82 per cent of the outstanding Alcan Aluminium (UK) 9 per cent convertible loan stock have given notice of conversion and the remaining 18 per cent might be compelled to convert.

As things stand, 16 per cent of the company's equity will soon be in British hands. The Canadian parent held £1,540,000 of the £2,252,213 stock which is to be converted.

Mr. Donald Main, finance director of Alcan Aluminium (UK) said yesterday that most of the shareholders who had not converted were private individuals. Compulsory conversion will probably be used "in their own interest," he said.

Alcan has applied to the Stock Exchange Council for a listing. If it is granted, dealings will start on Monday.

Recovery continues at Causton

THE RECOVERY began in the second half of 1977 at Sir Joseph Causton and Sons had continued with the trading profit for the March 31, 1978, six months at £288,000 compared with a £23,000 loss previously.

The pre-tax profit was £359,000 against £35,000 and while last year's result was assisted by employment subsidies totalling £283,000, these contributed only £84,000 this time. Interest charges were halved to £118,000 in the period owing to lower interest rates and reduced borrowings.

For 1977/78 pre-tax profit of the lithographic and letterpress printer was £318,000. Losses of

£0.95m were incurred in the two previous years.

Mr. Christopher Bland, the chairman, says the better result reflects improved trading conditions in the commercial colour print market, with the Eastleigh division making a small profit in contrast to a substantial loss last time.

The re-organisation of the London division and continued steady growth in the Eastern division have also been responsible for the improvement.

The profit came on turnover of £5.26m (£4.76m) and is subject to tax of £18,000 (nil) and before extraordinary losses of £60,000 (£31,000), mainly related to redundancy payments in the London division.

Mr. Bland says that although the group continues to operate well within its facilities, bank borrowings are still high, and no interim dividend is proposed for the year.

Dividends of 1.6708125p were paid in 1977-78 when profits were £222,869.

J. Bright more than halved

FOLLOWING A fall at halfway from £415,801 to £101,476 John Bright Group, yarn and fabrics manufacturer, finished the year to April 1, 1978, with taxable profits more than halved from £125m to £58,000 on turnover little changed at £20.87m, against £20.7m.

Earnings per 25p share are shown to be down from 5.58p to 3.29p and the dividend is maintained at 2.42p net, with an unchanged final payment of 1.47p.

The directors say that demand for group products became increasingly affected by the world wide recession in industrial activity. The modernisation of the industrial textile division is now in an advanced state, they add.

Results are arrived at after

charging an exceptional debit of £271,000 for the year in respect of a loss on the purchase of raw cotton, and interest, this time, paid on the medium term loan of £57,000.

Also there was depreciation £412,000 (£405,000), interest on 8 per cent Unsecured Loan Stock £64,000 (same), and interest received £29,000 (£25,000). For the period there was a credit of £273,000 from the Temporary Employment Subsidy and a £100,000 interest relief grant.

There was also an extraordinary debit of £85,000 being the provision for closure costs of the Preston unit. Last year there was a gain of £39,000.

Turnover of 1977-78 1976-77
£20,874,000 £20,700,000
Profit before tax 58,000 125,000
Tax 12,000 12,000
Net profit 46,000 113,000
Extraordinary debit 85,000
Losses 89,000
Earnings per share 3.29p 5.58p
Dividend 2.42p 2.42p
Interim dividend 1.01p 1.01p
Final dividend 1.41p 1.41p

Comment

Despite a profits slump of almost 60 per cent at John Bright, the company's six months share price has improved after a first-half contribution of only £101,000. This partly reflects the raw cotton market, where prices fell by 35 per cent between last April and November, but have since climbed back by some 20 per cent. Nevertheless, cotton stock amounting to £271,000 has been written down, most of this coming in the first six months. Demand from the rubber industry for the group's industrial textiles is still depressed and there are few signs of recovery. The tyre cord division, however, has escaped the effects of Goodyear's switch to the continent and Bright is the only UK supplier to retain business from this customer. However, the closure of the Preston plant is a sign that the company sees contraction as the only answer. Consumer demand is everybody's hope for 1978 and this at least may help carpet yarns. The outlook, however, is not exciting and although the second half improvement has been maintained in the current year there are no signs of any permanent recovery. At 33p the shares stand on a P/E of 9.7 and yield 11.6 per cent.

Sieff wins top Aims award

THE National Free Enterprise Award for 1978 will go to Sir Marcus Sieff, chairman of Marks and Spencer, at the World Press Centre on Free Enterprise Day, July 3—Aims for Freedom and Enterprise said.

A special award will go to Mr. Paul Johnson, former Editor of the New Statesman, International awards will go to Mr. Anthony Harrigan, executive vice-president of the U.S. Industrial Council and Mr. Trygve de Lanee, recently retired as director-general of the Norwegian free enterprise organisation Liberias.

A bonus scheme offered



Mr. R. W. "Tiny" Rowland, chief executive of Lenthoe.

DIVIDENDS ANNOUNCED

Company	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
P. Bilton	3.50	July 21	3.34	6.19	5.58
J. Bright Grp.	1.47	July 20	1.47	2.42	2.42
Carr's Milling	0.96	July 20	0.88	2.63	2.63
John Crowther	0.68	—	0.59	0.65	0.59
Dunhill	0.33	July 21	0.48	0.81	0.99
A. Dunhill	6.05	July 27	5.38	8.72	7.89
Edinburgh & Gen.	Nil	—	0.85	Nil	0.85
Invergordon Dist.	1.56	Aug. 3	1.4	2.23	2.02
Kelsey Inds.	1.25	July 14	1.25	—	3.23
M & G Group	1.31	Jun. 23	1.38	—	3.46
M & G Second Dual	2.31	July 18	2.04	5.06	4.34
Marley	4.08	Aug. 7	4.19	6.88	2.49
Norwest Holst	2.04	Aug. 7	1.8	8	13
Reed Int'l.	2.5	July 17	6.4	10	7.5
H. Samuel	2nd int.	—	—	—	—

Dividends shown pence per share net except where otherwise stated. † On capital. ‡ Equivalent after allowing for scrip issue. † On capital. ‡ Gross throughout.

Shutdown fear at Short's

BY OUR BELFAST CORRESPONDENT

SHORT BROS., the Belfast aerospace company, faces a total shutdown soon because of a pay strike by 1,500 white-collar workers, Mr. Philip Foreman, chief executive, said yesterday.

About 600 of the 4,000 production workers have been laid off so far because of the strike by technical and design staff and their clerical and administrative colleagues.

The dispute began over the widening of pay differentials between staff and shop-floor workers. A bonus scheme offered to the staff was turned down.

Mr. Foreman said: "It is a very serious situation to which we really see no solution. A shutdown could lead to a loss of important component orders from Boeing and Rolls-Royce. The Michelin tyre company, whose Mullus, Belfast, factory has been closed by a five-week strike by 250 employees over dismissal of a shop steward, has warned in newspaper advertisements of "the obvious consequences" for the 2,800 workers and their families if the stoppage goes on.

Kelsey down £0.2m in first half

ALTHOUGH TAXABLE profits for the half year to March 31, 1978, of Kelsey Industries fell from £381,415 to £382,243, the directors are hopeful that the final outcome will not be materially different from last year's profit for the first half.

Turnover for the six months was ahead from £7.5m to £8.8m but the directors explain that the higher figure arises more from increased prices paid for raw materials, than from a greater volume of business. And profit margins have not kept pace with costs, they add.

On increased capital from scrip issues and consolidation, earnings per 25p share are shown as 8.5p (10p) and the interim dividend payment is unchanged at 1.25p—last year's final was 1.88475p.

Net profit was £325,243 (£439,415) after tax took £457,000 compared with £322,000.

Exports continue to be a major part of the sales of the manufacturing companies and the jointly-owned company in the U.S., BIB Hi-Fi Accessories Inc., is progressing.

The order book of the roofing contractor company is in line with budgets but the amount of work completed has been adversely affected by the long winter.

The principal activities of Kelsey are the manufacture and sale of solder, soldering and audio accessories, sealants and mastic compounds and carries on business of industrial roofing and insulation contractors.

Earnings per 25p share are stated at 12.44p (7.04p) and the net final dividend is 1.5554p for a 2.5889p (2.02125p) total.

After tax of £377,900, against £470,185 the net balance—£470,185—higher at £24.9m.

Profits at Invergordon Distillers are up 58 per cent thanks to a small increase in volume sales and slightly better margins on exports. The heavy capital investment of the last five years is now more or less complete and a new still at the Grain distillery in Invergordon will come on stream later in 1978. This will not have a dramatic effect on profits but should help to keep down costs.

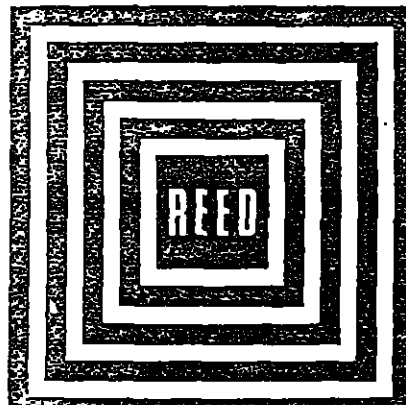
What is most interesting is the boost to reserves from a revaluation of four malt distilleries and other properties during the year just ended. A surplus of £13m was added to shareholders' funds in the last accounts after a similar exercise at the main distillery complex in Invergordon. The company says trading in the current year shows sales slightly up on last time but it may be difficult to maintain the same rate of profits growth. At 101p the shares stand on a P/E of just under 8 and yield 3.4 per cent, though most attention is possibly focused on the possibilities now that Hawker Siddeley has gained control of Carlton—Invergordon's parent.

They require those affected to give slightly more information about themselves and resolve certain doubts over the application of the earlier regulations.

The information is needed to enable the Trade Secretary to consider whether a person concerned is a fit and proper person to hold such a post.

STRIKE HITS LE NICKEL

In protest against production cutbacks, some 3,700 employees of Le Nickel in New Caledonia have come out on strike. The manage-



REED INTERNATIONAL LIMITED

Preliminary Results for Year Ended 31st March 1978

Overview

A year ago the Board made it clear that a period of rationalisation and retrenchment was needed.

The principal tasks since then have been to improve the return on existing assets and to make careful plans to sell or shut those operations which are either irrelevant to the main stream or are unable, for whatever reason, to earn a satisfactory return.

Efforts so far have produced:

Record trading results in the U.K. of £75m (£58m 1976/77);

A number of disposals realising approximately £40m;

A major rationalisation of the Canadian business.

A great deal remains to be done as the real return on the business as a whole is too low. It is still a primary objective of the Board to reduce the gearing. The strength of the U.K. business, a strong U.K. cash position and the long term of much of the debt continue to provide a firm base from which to tackle methodically the Group's problems and to ensure that any further disposals are made at the most propitious time.

Results

Compared with the previous year sales increased by 9% and trading profits by 11%. The principal improvements came from Paper, Packaging and Publishing in the U.K.:

Trading Profits £m 1977/78 1976/77
Paper & Packaging 32 25
Publishing & Newspapers 33 24
65 49

This is an increase of 33%.

Decorative Products remains a difficult area. An improvement in the U.K. and Europe was more than offset by reductions elsewhere.

Against a background of severe competition in Building Products, especially on the Continent, and the costs associated with the opening of the £5m expansion at Twyford, profitability has improved.

Overseas, Africa and Australia did well in difficult conditions, but Canada suffered a major setback. The trading profit of the North American Pulp and Paper interests fell from £11m to nil in 1977. The Canadian losses in the quarter to December 1977 have been halved in the quarter to March 1978 and are expected to be further reduced in the quarter ending June 1978.

Taxation

The taxation provision is made on the same basis as the previous year and is exceptionally high as losses incurred in Canada cannot be offset for taxation against profits elsewhere.

The Board support the proposals in ED19, but have decided to await the issue of an agreed standard before adopting them. If ED19 had been adopted, taxation for the year would have been reduced by approximately £5m.

Extraordinary Items

The principal items were £23m resulting from the Canadian rationalisation programme and £16m arising on the sale or writing-down of the investment of shares and loan stock of MEPC and the property revaluation in MEPC-Reed.

Dividends

After giving careful consideration to all the issues involved the Board has decided to recommend a final dividend of 2.0445p per £1 Ordinary Share. This proposed final dividend together with the interim, will make a total of 8.0p for the year, compared with 13p for the previous year.

The decision to reduce the dividend reflects:

The need to reinvest in the successful businesses;
The objective of a reduction in financial gearing;
The objective of paying a dividend which can be maintained in a period of economic uncertainty.

In the absence of unforeseen circumstances the Board expects to maintain total dividends in the current year at 8.0p but intends to reduce the interim to 3p, a more normal proportion of the total.

Subject to approval at the Annual General Meeting which will be held on 3rd August 1978, the Final Dividend will be paid on 15th August 1978 to Shareholders on the Register on 30th June 1978.

Funds Invested

Shareholders' funds fell from £412m to £356m. In addition to the deficit of £26m transferred from the Profit and Loss account after extraordinary losses there was an exchange loss of £30m caused by the strength of most of the Continental currencies in relation to a number of other currencies, notably the Canadian dollar.

Loan Capital has fallen by £22m to £377m, compared with an increase of £100m in the previous year. Net short-term borrowings were also reduced, from £35m to £7m, reducing total net borrowings by £50m. At the end of the year the Group had cash and unused short-term facilities in excess of £170m, of which over £100m was in the U.K.

REED INTERNATIONAL LIMITED REED HOUSE
PICCADILLY LONDON W1A 1EJ

PRELIMINARY CONSOLIDATED PROFIT STATEMENT (unaudited) for the year ended 31st March 1978

3 Months ended 31.3.77	31.3.78	Year ended 31.3.78	31.3.77
£m	£m	£m	£m
420.7	415.9	1623.2	1488.2
220.8	233.2	887.0	797.8
199.9	182.7	736.2	690.6
21.9	28.0	106.6	95.6
1.4	1.4	9.8	14.4
29.3	30.0	116.4	110.0
19.9	27.7	80.1	62.1
9.4	2.3	36.3	47.9
(9.0)	(7.3)	(35.4)	(35.4)
20.3	22.1	81.0	74.6
10.7	12.6	48.5	40.4
6.3	11.3	31.4	20.8
4.4	1.3	17.1	19.6
9.0	10.1	52.5	34.2
2.1	1.8	7.8	7.0
		24.7	27.2
		(41.5)	(7.3)
		(16.8)	19.9
		0.2	0.2
		8.9	14.5
		9.1	14.7
		(25.9)	5.2
		21.9p	25.8p

FUNDS INVESTED AND EMPLOYED (unaudited)

31.3.78	31.3.77
£m	£m
Shareholders' Funds	356
Deferred Tax	412
Outside Shareholders' Interest	56
Loan Capital	377
Net Short-term borrowings	7
	846
Fixed Assets	317
Investments	58
Goodwill	173
Working Capital	298
	846

Notes: 1. Overseas results relate to the year ended 31 December 1977.
2. Translation of overseas currencies into sterling. Profit & Loss items at appropriate average rates; goodwill at rates at date of acquisition; other assets and liabilities at rates at balance sheet dates.

MINING NEWS

Australian Parliament passes uranium Bills

BY PAUL CHEESBRIGHT

THE legislative framework for the development of Australia's uranium deposits moved into place yesterday when the Federal Parliament passed a series of six Bills defining the conditions for mining.

The Bills require only the formal consent of the Governor-General to become law.

They cover the protection of the immediate environment of the deposits likely to be developed, land rights for Aboriginal owners and the provision of nuclear safeguards for mining and export.

Mr. George Meyer, the general manager for uranium at BHP Industries, one of the partners at the Ranger deposit in the Northern Territory, commented that the legislation provided the guidelines the companies needed to go ahead with their initial development plans.

As such, the passage of the Bills denotes the closing phases of a long and bitter internal debate dating back to the days of the Whitlam Government. Uranium mining has been the subject of lengthy official inquiry and intense opposition from parts of the Australian trades union movement.

Since a Commission headed by Mr. Justice Fox endorsed, in October 1976, a policy of the Secretary of State for the Territories uranium deposits subject to stringent conditions, the Australian Government has

moved warily to achieve this object.

The passage of the bills, after six weeks of exchanges between the House of Representatives and the Senate, means that the light for uranium mining has changed from red to orange.

The fact that it has not changed immediately to green kept the immediate reaction on the markets at a low key. Pancontinental, which holds the biggest of the Northern Territory deposits at Jabiru, saw its shares gain 25p to £13.3. BHP Industries were unchanged at 205n, and so were Peko-Wallend, BHP's partner at Ranger, at £10.

What is still required is legislation establishing a uranium marketing authority which will supervise export sales on the lines of the Canadian Atomic Energy Board and the completion of negotiations with Aboriginal landowners on royalty payments.

A further round of talks with the Northern Land Council, representing the Aboriginals, will start on June 12. The Council, in what is widely regarded as a negotiating ploy, has proposed a royalty of 36 per cent on gross profits. This has been bitterly opposed by the companies and does not appear to meet Government policy.

Australian reports have suggested that Mr. Doug Anthony, the Deputy Prime Minister, wants

the Aboriginals to receive a royalty from Ranger set at 1.75 per cent over and above the 2.5 per cent to which they are entitled under Northern Land rights legislation.

The companies are anxious that the royalties issue should be resolved quickly so that construction on the mine sites may start during the current dry season, thus enhancing the chances of bringing Australian uranium to the international markets by the early 1980s.

FIRST INTERIM AT PENGKALEN

Pengkalen, the London-based tin company with Malaysian mining interests, is maintaining its first interim dividend for 1977-1978 at 1p. Its total payments for 1976-77 were 6.5p.

The directors stated yesterday that the rate of the first interim dividend carries no implication for the level of dividends later in the financial year.

With the output of tin concentrates down to 32.23 tonnes in the six months to March compared with 94.23 tonnes in the same period of the previous financial year, pre-tax profits for the half-year have been reduced to £38,000 from £138,000. The shares were unchanged yesterday at 62p.

BIDS AND DEALS

Tilling woos Fluidrive with £5m share offer

Thomas Tilling is showing no sign of turning off the acquisition trail. Yesterday it announced its third significant UK bid for the past 12 months—a £5m surprise offer for Fluidrive, the Middlesex hydraulic coupling group.

Earlier this year Tilling successfully bid for William Lawrence, the furniture group, and Liner Concrete. At the same time it has been concentrating its acquisition policy in the U.S. where it has made four major acquisitions in the same period, the largest being the £25m purchase of the Yale locks and security side of the Eaton Corporation, a deal which is still in the process of completion.

Yesterday Tilling explained that Fluidrive would complement the group's existing interests in hydraulic couplings which centre on the Antwerp-based subsidiary, Hansen Transmissions. Hansen makes fixed speed products whereas Fluidrive specialises in variable speed machinery.

Terms of the offer are five shares of Tilling for every eight Fluidrive. On the basis of yesterday's closing price of 175p for Tilling this values each Fluidrive share at 73n and represents an exit of just under 7p.

The board of Fluidrive said that it had only received the offer on Tuesday evening and was still considering it. Shareholders were advised to take no action until the board publishes its reaction.

The key to a successful takeover of Fluidrive must lie with the institutional shareholders. Some 27 per cent of the equity alone is held by five funds.

In the past full year Fluidrive's turnover was £2.26m and pre-tax profit amounted to £220,000. Interim figures to March reveal turnover of £4.6m and pre-tax profits slightly down on the comparable period to £279,000.

Consolidation of these figures within the Hansen group would provide a significant expansion of Tilling's hydraulic interests.

Hansen made profits of £1.1m on turnover of £15.4m for 1977.

The first stage would involve the construction of the alumina plant and would cost \$600m. Production would be 1m tonnes a year.

Mr. Muller predicted a sizeable gap between the supply and demand of aluminium by 1985 and said the gap would widen if some smelters were phased out for ecological or energy reasons.

Meanwhile, Swiss Aluminium Australia, an Alusuisse subsidiary, is taking a 40 per cent share in Nabucol Aluminium, which will study the possibility of establishing an aluminium smelter in Australia, the country's fourth.

The remaining 60 per cent is held by Gove Aluminium.

The total Gramos Group sales are expected to be in excess of £5m following the acquisition.

Mitchell Cotts Transport valued at 84p

Mitchell Cotts Group, the trading, engineering and transport concern, has now reached agreement on an offer to buy out the 22.98 per cent minority shares, which it does not already hold, in its subsidiary, Mitchell Cotts Transport. The terms put a worth of some £1.3m on the remaining shares which are the subject of the bid.

The offer, following an announcement earlier this month that such a move was being discussed, values the Transport shares at 84p, compared with 80n on May 5, the last business day before the talks were revealed.

Mitchell Cotts Group is bidding two of its own shares, 1p down at 42n last night, for each share in Transport, whose price was 1p up yesterday at 83n. It is proposed that the acquisition should be carried out through a scheme of arrangement under Section 206 of the Companies Act 1948.

The bid values the Transport shares at just above the 82n at which a 22 per cent holding in that company was sold off through a rights issue to Mitchell Cotts Group shareholders, in connection with the launching of Transport on the stock market in May 1972.

But Transport has not developed as an independent entity in quite the way envisaged when its shares went public in the boom days six years ago. The great bulk of the Transport shares are believed still to be owned by investors who are also shareholders in Mitchell Cotts Group, and around two-thirds of the 2.9m or so shareholders in Transport hold fewer than 100 shares each. The parent group thus sees the present bid as in the nature of a tidying up operation.

The Transport directors, who have been advised by J. Henry Schroder Warr, consider the bid terms fair and reasonable and recommend them. The directors are backing the take-over scheme in respect of their own holdings, totalling 6,500 shares (0.1 per cent). Mr. P. P. Dunlop, Mr. J. R. Scherer and Mr. J. R. C. Wren, who are directors of the Mitchell Cotts Group and of Transport, have not taken part in the discussions leading to the bid. Hill Samuel, advisers to the group, will be in a position to advise the bid as soon as possible.

IPC GROUP

IPC BUSINESS PRESS is to purchase Gershine, publisher of the

monthly journal Systems International, for £400,000, plus a sum equal to the net asset value of the company as at the date of completion, which is expected to be in the order of £30,000.

Peter Yapp, managing director of IPC Electrical-Electronic Press, said: Systems International strengthens our already established position in this particular publishing market fitting in very well alongside journals such as Computer Weekly, Computer Products International, Electronics Weekly, Electron, and Data Processing.

BRITISH STEEL CONSTRUCTIONS

At the annual meeting of British Steel Constructions (Birmingham) the chairman, Mr. R. W. Atken, advised shareholders that the closing date for offers for Qualifier Hall and Co. is June 1 and the sale should be completed within six weeks.

The dispute relating to the ownership of the company cannot be heard in the Courts before July 1979, and therefore he hoped that the dispute could be settled without resorting to litigation.

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Kellock moves for full quote

Within two years Kellock Holdings expects to regain a full quote for its shares, if its plans to take over Belgrave Assets are successful.

Kellock, which is bidding for the other 50 per cent of Belgrave that it does not already own has sent out its offer document to shareholders. It says that the rather complex bid terms have the support of merchant bankers, Brown Shipley—called in to provide independent financial advice for Belgrave ordinary and loan stock holders.

The basic offer is 35 Kellock ordinary shares plus 44 convertible irredeemable subordinated variable rate unsecured loan stock plus £1.38 cash for every 200 Belgrave ordinary shares.

There is an alternative offer which includes the issue of redeemable cumulative preference shares and no cash element.

The shares of Kellock, Belgrave and another subsidiary Lothian Investment were suspended at the beginning of this year after the status of the companies altered with the launch of Kellock Factors, in which all three companies had a stake.

Since then the companies have been tidying up their relationship and another subsidiary Lothian Investment was acquired by Belgrave last year. This latest step will enable the enlarged group to be quoted on the Stock Exchange unlisted securities market under rule 183 (2). This should take place on July 31.

Terms of the merger have been based upon the net asset values of Belgrave and Kellock. The cash element is being offered to compensate Belgrave holders, who accept the equity offer, for the reduction in income they are likely to suffer until Kellock is in a position to increase its dividends.

The directors anticipate that further benefits will come from the recent systems review at Morris—Kellock's subsidiary which distributes pet-food and horticultural products.

Factors is also expected to continue growing. The directors are exploring the possibilities of sales or sales and lease-backs of Morris' freehold and leasehold properties.

In the first four months of this year Factors has continued to increase its turnover which is substantially up on last year.

The abnormal winter adversely affected Morris' business but the directors expect that the outcome for the year will be satisfactory. Shareholders' meetings are called for July 3.

ICFC BACKING FOR TOWER GROUP

Industrial and Commercial Finance Corporation has provided £400,000 in finance expansion within the Tower group to meet demand for forklift components and mining equipment. The ICFC 12-year term loan will be utilised to acquire £250,000 plant and

NEB now has 18.5% of BBK

The National Enterprise Board has now raised its holding in Brown Boveri Ltd, the Swiss-controlled process equipment and instrument maker, from 17.6 per cent to 18.53 per cent. It was recently made known that the State-owned NEB wanted to lift its stake in the company to 20 per cent, the level which would allow it to bring an appropriate proportion of BBK's profits into its own accounts.

The NEB is also, as already foreshadowed, taking up its allotment of the rights issue of new shares at present being made by BBK. As a result of this, and of the recent purchase of 483,000 additional shares at an average price of 53.3p, the NEB has raised its holding of BBK shares by 2,284,734 to 10,058,072 (18.53 per cent). An NEB spokesman said last night: "We still want to raise our stake to 20 per cent but not beyond it."

The shares of BBK, 341 per cent of which are owned by Brown Boveri of Switzerland, last night closed unchanged at 59p.

MOVE TO BUY OUT EDWORKS MINORITY

The minority shareholders of Edworks, the South African footwear group quoted in London, are to be offered 143 cents per share by the controlling Dodo family. The bid was foreshadowed two and a half weeks ago when the shares were suspended at 83 cents per share.

The Edworks Board forecasts earnings for the year ending in June of not more than 23 cents per share (19 cents per share). Existing shareholders will receive 4 cents total dividend per share making a total for the year of 6 cents (4 cents).

Holders of B2 preference shares are being offered 132 cents for each 6 per cent preference share and 154 cents for each 7 per cent preference share.

Hill Samuel has been retained to act for outside shareholders.

HILTONS FOOTWEAR

Hiltons Footwear has sold the freehold property at 95/95, High Street, Guildford, for £1,243,000. An extraordinary profit of approximately £50,000 before tax will arise from this transaction. Proceeds will be used to develop the company's business.

Indonesia seeks investment

INDONESIA, ANXIOUS to encourage a recovery of mineral exploration activity, is considering a revision of the third generation mining contracts, writes David Housgrove from Jakarta.

In an interview here, Mr. Suharto, the newly appointed Minister for Energy and Mines in President Suharto's reshuffled Cabinet, said that the Government was studying how to improve the third generation contracts to make them more attractive to foreign investors.

Since the new regulations on mining came into force under a presidential decree in August 1978, Rio Tinto-Zinc is the only company to have signed a third generation contract. This was for the base metals exploration in North Sulawesi.

At the time the Government intended the agreement to serve as a model for future mining contracts. Before signing RTZ was able to secure a substantial modification on a key clause under which foreign exchange had to be retained by the Bank of Indonesia, the central bank

and contractors had to apply for permission to use it.

Mr. Suharto declined to say what further revisions he had in mind, but said that he had a team within his department studying the question. He added that he was open to suggestions.

The main new feature on the third generation contract were: A 10 per cent export tax on unprocessed minerals; a windfall or excess profits tax of 60 per cent when profits exceeded 15 per cent of investment over a three-year period, and foreign companies must offer 51 per cent of their equity to Indonesians within 10 years.

Large bauxite project for Guinea

ALUSUISSE, the Swiss aluminium group, is studying the possibility of Guinea, involving a bauxite mine of 4.5m (27.4m) project in

based on the proven existence of 150m tonnes of reserves, an alumina plant and an aluminium reduction plant.

Mr. Paul Muller, the Alusuisse president, said in Montreux yesterday that the group had been commissioned to draw up plans by seven countries: Guinea, Libya, Saudi Arabia and the United Arab Emirates.

The first stage would involve the construction of the alumina plant and would cost \$600m. Production would be 1m tonnes a year.

Mr. Muller predicted a sizeable gap between the supply and demand of aluminium by 1985 and said the gap would widen if some smelters were phased out for ecological or energy reasons.

Meanwhile, Swiss Aluminium Australia, an Alusuisse subsidiary, is taking a 40 per cent share in Nabucol Aluminium, which will study the possibility of establishing an aluminium smelter in Australia, the country's fourth.

The remaining 60 per cent is held by Gove Aluminium.

French Kier recovery confirmed

- * Group taxable profit almost doubled to £6,006,000. Earnings per share up from 1.6p to 6.3p after full tax charge. Dividend increased to 1.75p net from 0.5p net.
- * Increased profit contribution from construction companies at home and overseas.
- * Products and services companies maintained turnover. Further scope anticipated.

- * Improved results from property development and investment companies. Now entering more constructive phase.
- * Further reduction in borrowings and increase in cash balances. Convertible loan repaid to Department of Transport.
- * UK order book held steady. Overseas orders maintained despite increased competition.

- * Corporate structure reorganised. Wide range of technical skill, construction ability, manufacturing capability and property development expertise in the service of many communities.
- * 1978 taxable profits expected to be not less than 1977.

Highlights from the circulated statement of the Chairman, Mr. J. C. S. Mott, F.I.C.E., F.I.Struct.E.



works worldwide

Copies of the Report and Accounts, incorporating Mr. Mott's full statement, are available from the Secretary.

FRENCH KIER HOLDINGS LIMITED

50 Epping New Road, Buckhurst Hill, Essex IG9 5TH

An EEC test case for the Bank and the City's money brokers

BY JAMES BARTHOLOMEW

COMPLAINTS to the European Commission last August that the British money broker system is a "closed shop" have led to a test case of whether the City's idiosyncratic methods will be allowed to continue in the EEC.

For the first time, the Bank of England has been called upon to defend its informal regulatory system. Sir Harold Wilson, chairman of the "Committee to Review the Functioning of the Financial Institutions" has defended it, and other European central banks are rumoured to have exerted their influence in support of its independence.

Complaints

The original complaints to the EEC were made by Sarabex, a Middle East money broker with an office in London. They were that entry to London's Foreign Exchange and Currency Deposit Brokers Association (FECDBA) is effectively denied to new companies and that commission rates are considerably higher in London than in other EEC countries.

The FECDBA countered that eight new brokers have been admitted in the past eight years

and none has ever been refused. The commission rates vary from one currency to another but, said the FECDBA, in the main trade in London — that between sterling and U.S. dollars — the spot rate is very low at 30p per \$100,000.

The FECDBA requires that five London banks should sponsor any applicant, but Sarabex remonstrated that this was a "Catch 22". A broker had to be a member of the association in the first place before the banks could gain enough experience of him on which to base sponsorship, it said. The FECDBA replied that sponsorship depended primarily on whether the broker had sufficient qualified staff and adequate systems to offer a satisfactory service. The "Catch 22" did not exist, it claimed.

Members of the FECDBA deny that it is a "closed shop". New members can easily join, so they say, as long as they are sponsored and vetted, to ensure that they have capable staff and systems. One condition is that members must not be owned by banks because a broker might give the banks privileged access to attractive deals or information about their rivals.

It is true that the FECDBA

commission rates are generally higher than on the Continent, though by no means in all cases. Members claim this is so because they offer broking services in minor currencies which are not profitable and to small banks which do very little business. Moreover London brokers are not allowed to deal for their own account and make extra profits that way.

The British style of control differs from the continental in depending on consent and self-regulation through associations rather than law. This has left the FECDBA open to the accusation that it is an association in restriction of competition which is prohibited under Article 85 of the Treaty of Rome.

The Bank of England, the FECDBA and the British Bankers Association agreed last year that their defence on this point should be based on the Bank taking more overt responsibility for the FECDBA. They could then claim the protection of Article 90 of the Treaty which blunts some of the teeth of the regulations when an association or monopoly is granted by the State and where application of the competition rules would

obstruct performance of its "particular tasks."

Subsequently, members of the FECDBA have detected a keener than usual interest by the Bank in its quinquennial negotiations with the banks over commission rates. On the other hand, the new Sterling Brokers Association, which is likely to be officially started this summer, is set to be run very much on the same self-regulating lines as the FECDBA. The Bank is likely to keep a more careful watch since the Sarabex case but it does not want to give up the traditional element of regulation by consent.

The Bank believes that this system has proved successful and that far fewer instances of corruption among brokers have taken place in this country than elsewhere. There have been no major broking scandals such as the collusion which was part and parcel of the fraud at the Lugano branch of Lloyds Bank.

Challenge

But the Bank of England's view has been challenged by the International Currency Review which asserted last year: "It

would be stretching things too far to suggest that London brokers have established a higher ethical standard than their foreign counterparts; for the reverse is, in fact, the case." Not for the first time, the ICR alleged that British brokers are among the most eager to offer kickbacks to banks in return for business.

Establishing the truth is impossible for an outsider because corruption is by nature covert. But, all the public evidence suggests that London is among the most ethical of broking markets.

The most convincing argument is that corruption is simply not worthwhile for British brokers. They have international reputations to maintain and the extra profit they could make by, say, freely offering gifts as some Continental brokers are alleged to do, would not be worth the danger to the rest of their business.

Moreover, the rules under which the brokers operate make corruption difficult, in fact much more difficult than for stock brokers. Money brokers are not allowed to deal for their own account and the only gift or entertainment they may freely offer is lunch.

Overseas Offices of FECDBA Money Brokers

Member	Overseas Offices
M. W. Marshall	Singapore, Hong Kong, Bahrain, Kuwait, Luxembourg, London
Butler & Fenton	London
Butler International	London
Charles Fenton	London
Kirkland Whitehead Group	London
Edmond	London
Barrow Meyer	London
Butler & Riley	London
Tradition	London
A. W. Martin	London
James	London
Sarabex & Smith	London
Marshall Deposit Brokers	London
Woodward	London
Smart Local International	London

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Tradition	London
A. W. Martin	London
James	London
Sarabex & Smith	London
Marshall Deposit Brokers	London
Woodward	London
Smart Local International	London

* Subsidiary * Associate (less than 50% owned) * Parent

The 15 members of the Foreign Exchange and Currency Deposit Brokers' Association are nearly all private companies. Their most important expansion has been in the last decade. The owners are varied but discount houses predominate. R. P. Martin is the only one publicly quoted so far but others are expected to follow suit.

The high reputation of the London market is such that when Bahrain and Singapore wanted to set up their own markets they chose the London market as their model. The more ethical standards of British brokers have probably been one of the reasons for their international success, especially now that the world has become so conscious of bribery and corruption after the Lockheed and other scandals.

Few people outside the City know what money brokers do or recognise the success that British brokers have had over the past 10 years.

In dealing rooms resembling

space mission controls, computerised consoles keep them in direct touch with hundreds of banks. The brokers—who hold centre, partnered by respectable buyers and sellers of foreign currencies and bond-trenched before the rest of the international brokers come trooping in.

But if it goes wrong, the broker suffers financial losses—such as certificates of deposit which will probably not qualify and act as intermediaries for the local authorities and large companies. The casualty list is long: Astley and Pearce pulled out of Düsseldorf because it could not break into the market; R. P. Martin, limited monopolies on the only broker so far to go foreign exchange and currency deposit markets. For example, venture because it could no any of the 300 plus London compete against those local banks wanting to deal in foreign brokers who, it alleged, use exchange in London must go through a FECDBA member.

In return the brokers guarantee not to poach the banks' commercial and industrial customers. They also agree to service the various poorly traded and unprofitable markets such as Finnish marks.

Over the past 10 years, the business of British money brokers has mushroomed both at home and overseas. It is one of the City of London's unsung success stories and a source of invisible earnings which, although still small, is likely to grow more significant.

The primary reason for the success has been the presence in London of all the world's major commercial banks.

British brokers therefore had a tremendous advantage in the late sixties and early seventies when the markets in foreign exchange and Eurodollars expanded dramatically.

Meanwhile the domestic sterling markets were stimulated by the growing debt of local authorities and the volatility and distortions in interest rates. Local authorities obtain a high proportion of their short and medium term funds via money brokers, and treasurers of large companies and multinationals woke up to the fact that the best rates were not exclusively available from clearing banks.

British money brokers have capitalised on their initial advantages and in expanding overseas they have put the stamp of London broking methods on several new international financial centres and caused many older ones to move towards London's methods.

Most of the overseas expansion has taken place quite recently. M. W. Marshall opened in Singapore in 1972 (the first British broker there), Hong Kong a year later, then Panama in 1975, Bahrain 1976 and Kuwait and Luxembourg last year.

The new offices are, in one sense, a defensive move to protect the British share of total world business. London is inevitably losing some of its pre-eminence as other financial centres begin developing their own markets. But the worldwide industry is still growing and British brokers now have a lead internationally that will be difficult to overtake. If they keep anything like their current share then their operations in the next ten years' time will be even more substantial.

Three British brokers, Marshall, Charles Fenton and Guy Butler International, can truly claim, "We never close." When their London offices are shut, those in New York are in full swing, then the business moves on to the West Coast of the U.S., the Far East—Hong Kong and Singapore—the Middle East and then back to Europe.

The Partners responsible are George Inge and Guy Galbraith.

The greatest success so far have been in new centres such as Singapore and Hong Kong which have been growing fast. The going has been tougher on the Continent where the British have found it difficult to break into the existing establishment, consent rather than law.

Expanding overseas can be a risky game. The ideal is to open up in a growing financial centre, partnered by respectable and influential local together buyers and sellers of interests, becoming well entrenched before the rest of the international brokers come trooping in.

But if it goes wrong, the broker suffers financial losses—such as certificates of deposit which will probably not qualify and act as intermediaries for the local authorities and large companies. The casualty list is long: Astley and Pearce pulled out of Düsseldorf because it could not break into the market; R. P. Martin, limited monopolies on the only broker so far to go foreign exchange and currency deposit markets. For example, venture because it could no any of the 300 plus London compete against those local banks wanting to deal in foreign brokers who, it alleged, use exchange in London must go through a FECDBA member.

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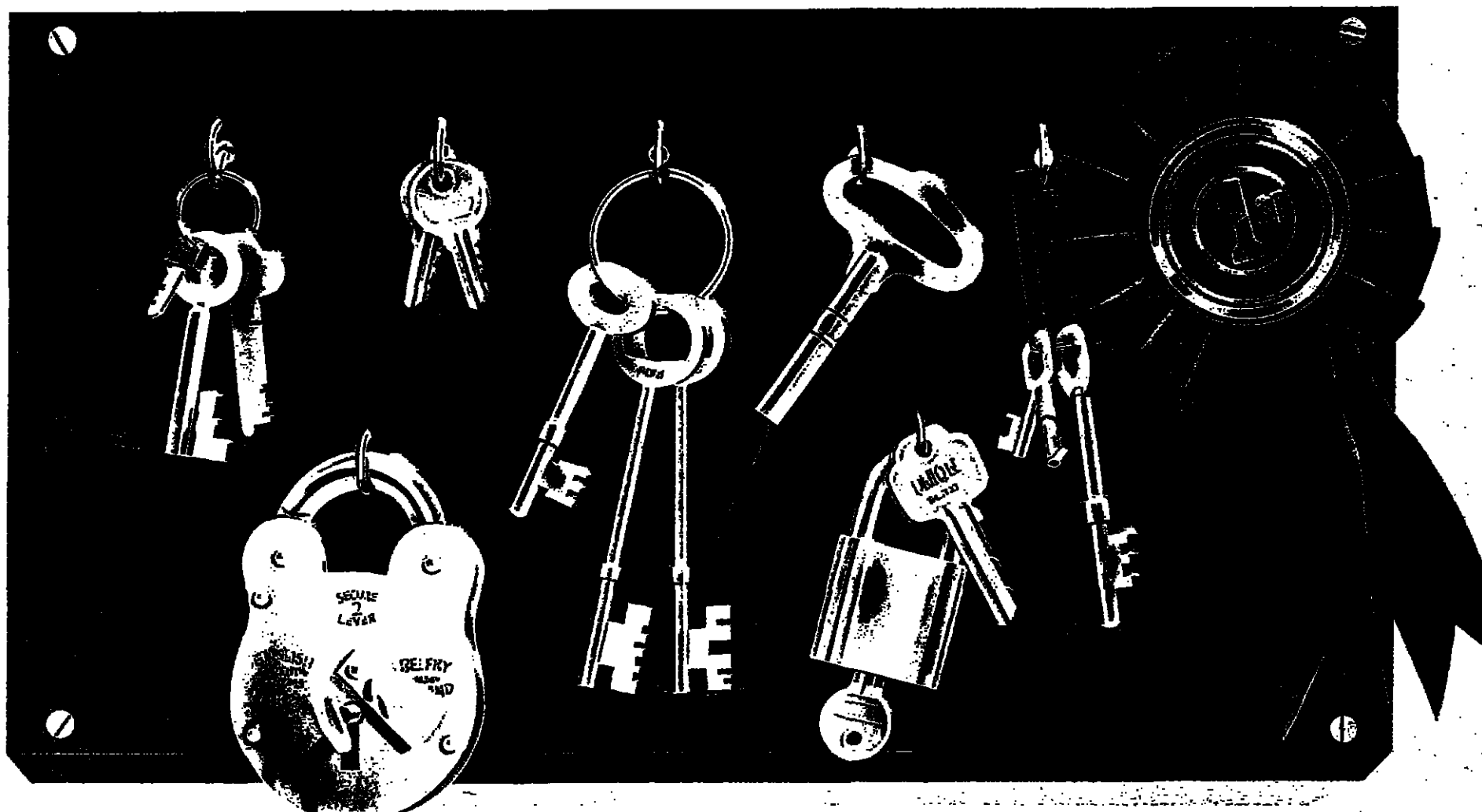
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مكتبة الأصل

Financial Times Thursday June 1 1978

Reed dividend cut to 8p: £41.5m write-offs

FINAL QUARTER results of Reed International increased £2.4m to £22.7m leaving the pre-tax profit of the group at £74.8m to £81m in the March 31, 1978, year. But after extraordinary losses of £41.5m (£7.9m) tax of £48.5m (£9.4m), minority interests of £7.8m (£2m) and a minor reduction in the cost of £3.9m against £14.5m the end result was a £25.5m retained loss (£5.2m profit).

The extraordinary losses comprise £23m from the Canadian rationalisation, £10m from MEPC shares and loan stock and MEPC-Rogge syndicates and £2m from other sources. Directors point out that when the MEPC interests were acquired in 1972-73 a revaluation surplus of £26m was transferred to reserves.

Following the warning of a review of dividend policy and the dividend, the payment has been cut from 7.045p net per £1 share to 2.045p, for a total of 8p against 13p. Directors say this reflects the need to reinvest in the successful businesses, the objective of reducing gearing and the objective of paying a dividend which can be maintained in a period of economic uncertainty. Directors say that a year ago Canadian losses in the December quarter were halved in the March period and should be further reduced in the June quarter. These losses were expected to be no less than £10m for the year. On trading results, much of the UK increase came from a 33 per cent rise to £65m by the paper and packaging and publishing and newspaper operations.

BICC 'poor record' criticised

Results over the past ten years at BICC, the UK's leading cable manufacturer, suggest that there is a lack of effective individual incentive within the company, major shareholder claimed yesterday.

Speaking at the annual meeting, Mr. Geoffrey Atherton, former chairman of BICC subsidiary Dorman Smith, said BICC enjoyed a high reputation for the gentlemanly way in which it conducts its affairs. But Mr. Atherton, who said he represented a holding of well over half a million shares, added: "I do wonder if all the directors appreciate that the ten year record of the company is poor and that the five year record is worse." Additional capital, he claimed, appeared to have been spent without commensurate return while the record suggested that there was a lack of effective individual incentive.

Replied to Mr. Atherton's remarks, BICC chairman, Mr. C. H. Broughton-Pipkin, commented: "I accept that it is true that the ten and five year record is not as good as it should be. The results have been substantially better for the last year and we can continue to improve them. We do have some incentives in the company in the way of bonuses and share options but if Mr. Atherton has some proposals we would all be very pleased to hear them."

Earlier Mr. Broughton-Pipkin had stated that it was still too early to be commenting further on the prospects for the full year. In his statement to shareholders in the annual report he had said he believed the company would produce some improvement in its 1978 results through efforts to improve efficiency and therefore profitability. He had also said that on account of the company's heavy dependence on the level of world trade the 1978 results could be substantially better if there was an improvement in that direction.

Yesterday he added that despite difficult trading conditions the company was making progress in those matters which it could control or influence. With regard to the world economic conditions, however, he could not see any positive evidence of the recovery for which everyone was hoping.

In answer to a question about the move to end BICC's link with the U.S. General Cable Corporation, Mr. Broughton-Pipkin said he "had reason to believe" the company could get a higher price for its 20.1 per cent stake if it was up its option by the expiry date of July 24.

In a formal offer to General Cable Associated Engineering and Cable, BICC has set a price of £38.50 per share—more than 33m shares.

The decorative products area remains difficult, directors say, with improvements in the UK and Europe offset by reductions elsewhere.

Building products profits improved against a background of severe competition and the costs of the opening of a £5m expansion at Telford.

African and Australian operations did well in difficult conditions. The tax charge for the year is exceptionally high because Canadian losses cannot be offset against profits from elsewhere, directors say. If ED 19 had been applied the charge would have been some £5m lower.

At year end loan capital was down £22m to £377m and short-term borrowings from £35m to £7m. Directors say the group had cash and unused short-term facilities in excess of £170m at year end, with more than £100m in the UK.

See Lex

Production cutback costs hit John Crowther

HIT BY write-offs and 'redundancies' of £210,000, the pre-tax loss of John Crowther Group increased from £125,716 to £257,678 in 1977.

Turnover for the period advanced from £4.88m to £5.31m and the loss was struck after depreciation of £129,442 (£114,097) and interest of £217,514 (£165,496).

At midway a turnaround from a loss of £54,038 to a profit of £24,228 was reported. Tax relief amounted to £70,517 (£50,000) for the year. The dividend payment per 25p share is raised from 0.59p to 0.65p net.

In addition to the specific items of write-offs and redundancies there were further heavy losses incurred due to under-recovery and other inter-related factors, and considerable excess of that amount through the necessary severe production cutbacks.

The expansion which was taking place prior to the sterling increase of 1977 would have resulted in

the growth of profits developing in the first-half figures.

The result of the percentage change of more than 15 per cent in the value of sterling in the company's principal selling period seriously affected 35 to 40 per cent of the total volume of the company's business which was then especially competitive with imported fabrics.

This, together with the uncertainty created at a time when the company's shipments and new orders were normally at their peak, could not have been anticipated, say the directors.

During the equivalent period in the previous year the pound fell to a low of \$1.56 and in 1977 it reached a high of \$1.92, a rise of 23 per cent. Imports, therefore, were becoming increasingly expensive and the company's ability to trade and compete both in home and export markets was undermined accordingly.

From the last quarter of 1977

onwards the company has been substantially reducing dependence on the type of trade affected by the sterling rate by developing different products and is operating at a relatively high level of activity in most areas of the group, the directors state.

Special write-offs, a jump in interest charges and a strengthening of the pound put paid to John Crowther's attempt to return to the black last year. At the halfway mark it posted a £24,228 taxable profit after recording losses totaling £474,168 in the previous two years. Since the trouble in the

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CARR'S MILLING INDUSTRIES LTD

Interim Statement

	26 weeks to 4th March, 1978	27 weeks to 5th March, 1977	53 weeks to 3rd Sept., 1977
Sales	13,137,000	13,031,000	24,556,000
Less inter company sales of products for re-processing	1,214,000	1,244,000	2,451,000
Sales to External Customers	11,923,000	11,787,000	22,105,000
Profit before Taxation	456,000	376,000	719,000
Estimated Taxation	237,000	195,000	50,000
Profit after Taxation	219,000	181,000	669,000
Net Profit Attributable to the Group	219,000	181,000	669,000

The figures for the 26 weeks to the 4th March, 1978 (and for the comparable period of the previous year) are unaudited and show estimated taxation at 52% of the profit for comparative purposes only. In my view it would be misleading to estimate the tax charge on the basis of each half year as many factors affecting this can only be assessed over the year as a whole.

However, having regard to the Capital Allowances and various reliefs available to Group Companies it appears to be unlikely that the rate of charge for tax for the current financial year will differ significantly from that shown for the 53 weeks to the 3rd September, 1977.

Profits at a satisfactory level were achieved by the Company's subsidiaries engaged in flour milling and the manufacture of animal feedstuffs but a loss was incurred by our frozen foods factory. This operation started a year ago and with rapidly increasing sales it is not unrealistic to expect a contribution from Society Fare Ltd. in the next financial year. The major sectors of our business are continuing to trade well and although it is too soon to make a definite assessment it appears that the recent reduction of capacity in the bread industry will be beneficial to our bakery interests.

If the present control of dividends by legislation continues it will be necessary to limit the total dividend to be paid for the year. With this in mind the Directors have declared an Interim Dividend on the Ordinary Share Capital of the Company for the year ending 2nd September, 1978 of 0.96p per share (Interim Dividend 1977, 0.88p per share). The dividend declared will absorb £48,000 of the profit and will be paid on the 3rd July, 1978 to those registered as Shareholders on the 23rd June, 1978.

Carlisle, 1st June, 1978.

Ian C. Carr (Chairman)

SHARE STAKES

Trust—Commercial Union Assurance Co. has sold 140,000 shares reducing holding to 1.05m shares (10.5 per cent).
A. B. Electronic Products Group—Stockholders Investment Trust has acquired interest of 200,000 shares (8.01 per cent).
J. Fattorini, director, has disposed of 50,000 shares.
Provincial Cities Trust—Cornhill Insurance has acquired a further 22,000 ordinary shares bringing its total interest to 309,300 (10.51 per cent).
Regional Properties—Mr. F. G. Cotton, director, purchased 1,000 ordinary shares and Mr. M. S. Hardie, director, 101,000.
Crosby House Group—Mr. E. Newby, director, has sold 30,000 shares. Mr. D. Goodwin, director, 12,500 and F. Jamieson, director, 12,500. All at 62p.
De Vere Hotels and Restaurants—L. Muller and A. T. W. Harvey have sold 258,000 shares out of their joint holding.
Bullough—Following recent rights issue, Mr. and Mrs. I. Blooth's holding has changed to 669,451 shares (7.66 per cent).
William Press and Son—Mr. W. A. Hawken, Mr. D. D. Decarie and Mr. A. J. Gravell, directors, have, as trustees of the group share incentive scheme, transferred to participants 14,400 ordinary shares.
Kersey Ullmann—Director, Mr. 75,000 shares on May 22 and a G. A. Naggar, on May 24, sold further 25,000 on May 23.

22,000 ord shares at 43.5p. Mr. Naggar had a non-beneficial interest in these shares. Midhurst White Holding—GCT Investments on May 22 sold 100,000 ord shares and on May 25 to 550,000 shares (7.22 per cent).
Idris Hydraulic Tin—Penskalen has reduced its holding from 6.64 per cent to less than 5 per cent.
Bank of Scotland—Kewall Investment Office has acquired a further £10,000 stock units of £1 making a total holding of £1,113,000 (£393 per cent).
Oliver Paper Mill Company—Mr. A. S. Kosow's shareholding has increased by 15,000 to 115,000 Ordinary shares (7.18 per cent).
Tove and Co.—J. B. Hayward and Son (Medical Specialists) now hold 194,000 Ordinary shares (8.2 per cent).
C. A. Sperni—Mr. R. Marsh no longer holds 7,140 Ordinary shares registered in his name (14.28 per cent), having disposed of 6,500 of his holding. Names of holders holding 5 per cent or more of the company are: Robert Marsh and Mrs. M. J. Marsh (7.406 (14.81 per cent), deceased), 7,406 (14.81 per cent) shares. A. J. S. Orchard 3,498 (7 per cent) shares. B. S. Walker 4,347 (8.09 per cent) shares, and Mrs. K. D. Bramham 2,753 (5.37 per cent) shares.
Energy Services and Electronics—F. G. Rollason has purchased 75,000 shares on May 22 and a further 25,000 on May 23.

Stag Furniture Holdings—The following 10 per cent preference shares have been sold: V. N. Radford beneficial 52,229; P. V. Radford beneficial 13,514; P. V. Radford, as trustee, 46,898. Total sales, less duplications, 87,746 all at prices between 99.54p and 100p.

Stag Furniture Holdings—21,238 preference shares in which V. N. Radford had a beneficial interest have been sold at 102½p.

Crosley Building Products—UK Temperance and General Provident Institution holds 500,000 shares (7.43 per cent).
International Investment Trust Co. of Jersey has an interest in 189,250 shares (24.2 per cent).
Finance and Industrial Trust—Harmer Finance has bought 11,902 shares making total holding 1,663,000 shares (64.4 per cent).
Montagu Boston Investment

New Issue

These Bonds having been sold, this announcement appears as a matter of record only.

June 1, 1978



NIPPON SHINPAN CO., LTD.

Tokyo, Japan

DM 50 000 000.—

Convertible Bearer Bonds of 1978/1985

Issue Price: 100%

Interest: 3% p.a., payable semi-annually on April 1 and October 1.
Final Maturity: April 1, 1985
Conversion Right: from August 1, 1978 into shares of Common Stock of Nippon Shinpan Co., Ltd. at a conversion price of ¥ 736 per share
Listing: Frankfurt (Main)

Berliner Handels- und Frankfurter Bank

Daiwa Europe N.V.

Sauwa Bank (Underwriters) Limited

Credit Suisse White Weld Limited

N. M. Rothschild & Sons Limited

Smith Barney, Harris Upham & Co. Incorporated

Algemeine Bank Nederland N.V.

A. E. Ames & Co. Limited

Amsterdam-Rotterdam Bank N.V.

Banco Commerciale Italiana

Banco del Gottardo

Banco Ambrosiano

Bank of America International Limited

Bank für Gemeinwirtschaft Aktiengesellschaft

Bank Leu International Ltd.

Bank Mees & Hope NV

Banque Bruxelles Lambert S.A.

Banque Générale du Luxembourg

Banque de l'Indochine et de Suez

Banque Internationale à Luxembourg

Banque Nationale de Paris

Banque de Neufville, Schlumberger, Mallet

Banque de Paris et des Pays-Bas

Banque Rothschild

Baring Brothers & Co. Limited

Baring Sauwa Limited

Bayerische Hypotheken- und Wechsel-Bank

Bayerische Landesbank Girozentrale

Bayerische Vereinsbank

BHT-BANK International

Blyth Eastman Dillon & Co. International Limited

Caisses des Dépôts et Consignations

Chase Manhattan Limited

Citibank International Group

Commerzbank Aktiengesellschaft

Credit Commercial de France

Credit Lyonnais

Creditanstalt-Bankverein

Dai-ichi Securities Co., Ltd.

Daiwa Europe (Deutschland) GmbH

Daiwa Securities (HK) Limited

DBS—Daiwa Securities International Limited

Deutsche Bank Aktiengesellschaft

DG BANK Deutsche Genossenschaftsbank

Deutsche Girozentrale—Deutsche Kommunalbank—

Dillon, Read Overseas Corporation

Dresdner Bank Aktiengesellschaft

First Boston (Europe) Limited

Robert Fleming & Co. Limited

Genossenschaftliche Zentralbank AG—Wien

Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft

Goldman Sachs International Corp.

Groupe des Banquiers Privés Genevois

Hambros Bank Limited

HUI Samuel & Co. Limited

Industriebank von Japan (Deutschland) Aktiengesellschaft

Inter-Alphas Asia (Singapore) Limited

Istituto Bancario San Paolo di Torino

Kleinwort, Benson Limited

Kreditbank N.V.

Kreditbank S.A. Luxembourg

Kuhn Loeb Lehman Brothers Asia

LTCB Asia Limited

Manufacturers Hanover Limited

Merrill Lynch International & Co.

R. Metzler seel. Sohn & Co.

Morgan Grenfell & Co. Limited

Morgan Stanley International Limited

Nederlandsche Middenstandsbank N.V.

New Japan Securities Co., Ltd.

The Nikko Securities Co., (Europe) Ltd.

Nippon European Bank S.A.

Nomura Europe N.V.

Österreichische Länderbank

Sal. Oppenheim Jr. & Co.

Orion Bank Limited

Pierson, Holding & Pierson N.V.

Privatbanken Aktiengesellschaft

Rothschild Bank AG

Saiomon Brothers International

J. Henry Schroder Wagg & Co. Limited

Société Générale

Société Générale de Banque S.A.

Swiss Bank Corporation (Overseas) Limited

 Taipei Koko Finance Hong Kong Limited | Tokai Kyowa Morgan Grenfell Limited |

Trinkaus & Burkhart

Union Bank of Switzerland (Securities) Limited

Vereins- und Westbank Aktiengesellschaft

J. Vontobel & Co.

M. M. Warburg-Brinckmann, Wirtz & Co.

S. G. Warburg & Co. Ltd.

Westdeutsche Landesbank Girozentrale

Westfälische Bank Aktiengesellschaft

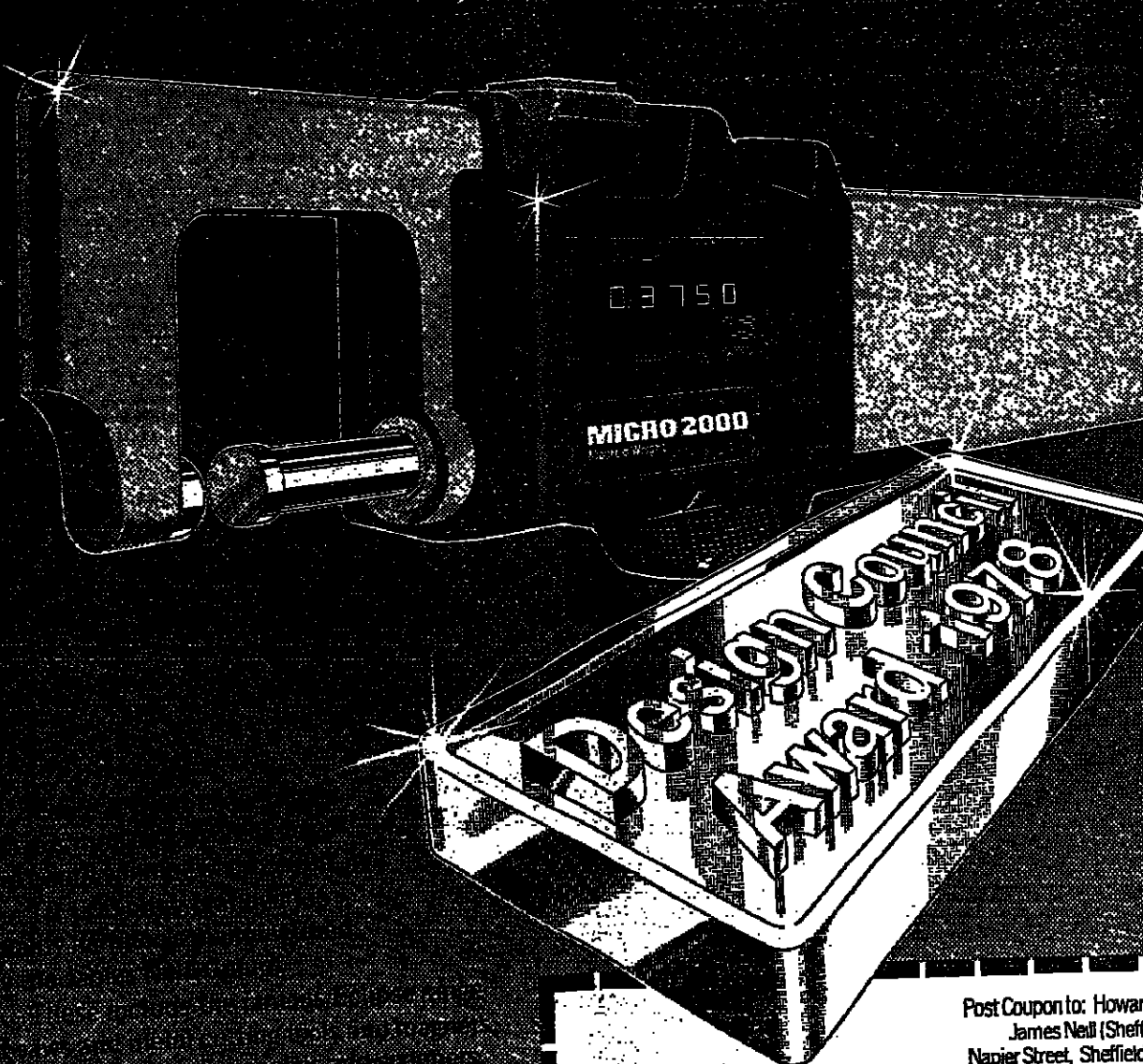
Williams, Glyn & Co.

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Yamaichi International (Europe) Ltd.

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INTERNATIONAL FINANCIAL AND COMPANY NEWS

NORTH AMERICAN NEWS

Fewer new chemicals projects

By Kevin Done, Chemicals Correspondent

THE U.S. chemicals industry has sharply reduced the number of major capital expenditure projects announced in the first quarter of the year.

According to a report from Salomon Brothers, the New York stockbrokers, far fewer new capital projects were sanctioned in the first three months of the year than in any quarter for at least five years. There was not one announcement of a large chemical plant costing more than \$25m from any of the top 40 U.S. chemical companies, from U.S. conglomerates with chemical interests or from foreign chemical companies operating in the U.S.

Only the oil companies were still active in launching major investments, including Shell which is building a new ethylene plant in Louisiana. Four large chemical plants were announced by oil companies, but even for this sector the number of new initiatives was sharply reduced.

Salomon Brothers forecast that capital spending on chemicals in the U.S. will be virtually flat in absolute dollar terms during 1978-79. Chemical capital expenditures in 1978 will total some \$8.5bn, consisting of \$5.5bn from chemical companies, \$1.5bn from oil companies, \$1.0bn from foreign companies and \$0.5bn from U.S. conglomerates.

Over the four years to 1979 the building of new plants will be excessive, mainly in the oil and chemical sectors.

However, if the low level of new announcements continues, as is expected, new plants will only be adding 1.2 per cent a year to industry capacity in the early 1980s.

Labour cutback underlines problems at Jos. Schlitz

BY DAVID LASCELLES

JOS. SCHLITZ, one of the big U.S. brewers, which is fighting a losing battle to keep its share of a fiercely competitive market, today announced from its Milwaukee headquarters that it would start laying off workers at its eight breweries over the next two or three weeks.

It gave no precise figures, but said the lay-off would affect "less than 5 per cent" of the work force, which numbers 7,150. The announcement is the latest symptom recently displayed by Schlitz that all is not well with its operations. Only three years ago the company was in an undisputed number two position behind Anheuser-Busch in the 150m barrel a year U.S. beer industry.

Now, it lies a doubtful third after Miller Brewing, which has made spectacular gains since it was taken over by Philip Morris in 1969. Schlitz's sales declined last year for the first time in a decade, and earnings of \$20m compared to 1973's record \$82.7m.

In retrospect, it is clear that one of Schlitz's big mistakes was its failure to perceive the rapid growth of so-called "light beer," a lager-like brew which has shown R. J. Reynolds, the tobacco company, about a possible merger, but with no substantive progress. Miller Brewing was right in on so far.

However, in an effort to get back on the road again, Schlitz has been overhauling its management, and last month hired Mr. Allan Proudfoot, marketing problems, including an ill-conceived advertising campaign owned marketing division.

which tried to bully drinkers into buying Schlitz beer. It has also been charged with violating Federal Income Tax and Alcohol Laws, though it is contesting the indictment.

The company's uncertain position has given rise to a spate of takeover or merger reports. Earlier this month it confirmed that there had been talks with R. J. Reynolds, the tobacco company, about a possible merger, but with no substantive progress.

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U.S. Steel in SEC inquiry

PITTSBURGH, May 31. U.S. STEEL has disclosed that it is under investigation by the Securities and Exchange Commission (SEC) "to determine the adequacy under the securities laws of U.S. Steel's disclosures relating to environmental matters."

The steelmaker is discussing possible resolution of the matter through a SEC "administrative proceeding." The company said this could involve an "offer of settlement" by U.S. Steel, which might include commissioning of an independent study of environmental compliance costs and establishment by the company of procedures "to ensure the adequate disclosure of environmental matters."

The SEC investigation was initiated last year and has involved subpoena of some company documents relating to environmental matters and testimony from several U.S. Steel employees.

The company disclosed the investigation in a Form 8-K amendment to its 1977 10-K annual report to the SEC. At the same time, the company amended other, non-environmental details of its business. These changes offered additional information about the market distribution of the company's steel products, and more detailed summaries of recent market conditions affecting U.S. Steel's chemicals, resource development and fabricating and engineering subsidiaries.

A SEC official said U.S. Steel's business segment amendments were the result of a broad push by the agency to require expanded business segment reporting by large, diversified companies. He said these amendments had no relation to the SEC investigation of the company's environmental disclosure.

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BP and Caltex in \$180m Singapore refinery plan

BY RAY DAFTER, ENERGY CORRESPONDENT

BRITISH PETROLEUM, Singapore Petroleum Company and Caltex Petroleum Group are to join forces in a major Singapore refinery project costing over \$180m.

BP and Caltex are to take a stake in Singapore Petroleum's 70,000 barrels a day refinery at Pulau Merlimau, Singapore, and replace existing capacity at BP's small 30,000 b/d refinery in add a further 100,000 barrels a day of new capacity.

The proposals come at a time when there is serious refinery over-capacity in many parts of the world—particularly in Western Europe—and when over-capacity was expected to remain for the foreseeable future.

The arrangements under discussion include the formation of a new processing refinery company by Singapore Petroleum SPC will hold 40 per cent of the issued capital stock with BP and Caltex holding the remaining 60 per cent in equal shares. Caltex is the refining and marketing interest of two major U.S. oil companies—Standard Oil of California and Texaco.

It is expected that the planned refinery expansion will be completed by late 1980. Mr. Tan Boon Teik, chairman of SPC and chairman-designate of the new company, said that all the participants regarded the developments as a significant step forward both for themselves and for Singapore.

The British company added that the Far Eastern market differed from Europe in that its over-capacity in many parts of the world—particularly in Western Europe—and when over-capacity was expected to remain for the foreseeable future.

BP, which could invest between \$50m (\$54.5m) and \$25m (\$26.5m) in the project, pointed out, however, that its involvement arose from the company's projected deficit of refined products in South East Asian and Australasian markets. The additional output could eventually be utilised by the 1980s.

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SNC buys New York concern

BY ROBERT GIBBENS

THE SNC Group, Canada's second largest consulting, engineering and project management concern, has acquired Sinzmaster and Bryer of New York through SNC Corporation, its U.S. holding company.

Last year SNC acquired a major interest in Hensley-Schmidt, of the U.S., forming a joint company operating from Atlanta.

Sinzmaster and Bryer offers specialised expertise in the metallurgical and chemical industries in the U.S. and overseas. It will continue under its present name and management. No financial details were disclosed.

Meanwhile, the growing Toronto real estate development company Olympia and York Developments, which recently moved into the New York market, plans to make a bid through the facilities of the Toronto and

shares of the Vancouver realty concern Block Bros. at C\$8 a share.

Olympia already owns 23 per cent of Block and about 15 per cent of outstanding stock is held by senior officers Arthur and Henry Block. The offer is being made for shares held by the public.

Vancouver stock exchanges for clearing centre.

Canada's largest mail order organisation and also a major department store chain, has bought the former Electrohome home electronics plant at Stellarton, Nova Scotia. It will be used as a distribution centre for some Sears lines in the maritimes and later will become also a catalogue clearing centre.

Campeau slips into deficit

By Our Own Correspondent

MONTREAL, May 31. CAMPEAU CORPORATION, the major Ontario and Quebec real estate developer, showed a first quarter loss of C\$1.9m (U.S.\$1.7m) against a profit of C\$544,000 or 6 cents a share a year earlier. There was a cash flow deficit of C\$659,000 against C\$544,000 or 6 cents a share. The loss was attributed to slow housing markets in Montreal and Ottawa.

Operating revenues were C\$24m (C\$20m). The company has disposed of its shares in Banister Continental, the western pipeline group.

The Notes are listed on the Luxembourg Stock Exchange. By: Morgan Guaranty Trust Company of New York, London Agent Bank.

Weekly net asset value on May 29 1978

Tokyo Pacific Holdings N.V. U.S. \$49.02

Tokyo Pacific Holdings (Seaboard) N.V. U.S. \$35.72

Listed on the Amsterdam Stock Exchange Information: Pleson, Hidding & Pleson N.V., Herengracht 214, Amsterdam

VONTABEL EUROBOND INDICES

PRICE INDEX 30.578 23.578 AVERAGE YIELD 10.578 23.578

U.S. 5 Yr. Bonds 99.37 99.86 U.S. 5 Yr. Bonds 8.811 8.722

Can.-Dollar Bonds 100.00 100.05 Can.-Dollar Bonds 9.284 9.270

EUROBONDS

Strong demand for NatWest

By Francis Gihles

THE MARKET was fairly active yesterday, with prices somewhat mixed. Some dealers are beginning to feel that short-term paper might move up a little, and report some investor demand. The floating rate note sector was very quiet.

The National Westminster issue priced last night, the \$123m floating rate note tranche was increased by \$25m to \$148m as a result of very strong demand and priced at par. This is the largest floating rate note ever.

In the Deutsche Mark sector, prices moved up again yesterday: the recent Industrial Bank of Japan issue has seen its price move from 87.5 to 88.4 since the beginning of the week.

Massey-Ferguson lower

TORONTO, May 31.

IN LINE with predictions of hard times ahead for Massey-Ferguson when it reported a loss in the first quarter, the company has announced a second quarter loss of \$16.7m against a net profit for the same period last year of \$2.1m. This was on sales ahead by 17 per cent at \$777m. The company reports its figures in U.S. dollars.

Looking ahead, Mr. Albert A. Thornborough, the company president says that profitable operations are not expected to resume "until sometime in the fourth quarter." However, while the outlook for the remainder of 1978 is tempered by indications of softening markets for farm machinery in many parts of the world, as the second half progresses, programmes now under-

taken will progressively improve operating costs and the balance-sheet.

For the first half as a whole, this brings the company's net loss to \$35.5m against a net profit of \$5.2m or 1 cent a share for the same period of last year. Sales for the half are 14 per cent higher at \$1.31bn.

While the outlook for farm prices appears to be "justly cautious optimism" for the rest of the year in North American farm machinery, industrial and construction machinery is expected to show little improvement over 1977.

Efforts to dispose of part or all of the construction machinery business continue.

General Mining and Finance Corporation Limited

(Incorporated in the Republic of South Africa)

Chairman's Review—1977

The turnover of the Group, including associated companies, has been rising steadily, and for the year under review amounted to R2,944 million. The distribution of this amount is illustrated below.

UNION CORPORATION LIMITED

General Mining and Union Corporation, whose activities are complementary, continue to retain their separate identities and organisational structures.

FINANCIAL RESULTS

Group income before taxation increased from R106.5 million to R113.9 million and after taxation from R78.0 million to R86.3 million while income attributable to ordinary shareholders increased from R34.5 million to R43.3 million. Earnings per share rose accordingly by 25.3 per cent from 41.5 cents to 52.0 cents. The total dividend for the year increased by 7.1 per cent from 210 cents to 225 cents per share, the dividend cover being 2.3 as compared with 2.0 in the previous year. There was also an increase of 19.7 per cent in net asset value per share at the year-end from 4.553 cents to 5.452 cents.

During 1977, General Mining repaid R48.0 million of its own loan capital.

GROUP ACTIVITIES

The production of gold remains an important aspect of the Group's activities. The increase in the price of gold during the past year resulted in a significant improvement in the profitability of the gold mines. The demand for Kruger rands has increased and at present there is a considerable demand in Germany and the United States.

Production of uranium increased by 22 per cent during the year mainly as a result of higher production by West Rand Consolidated Mines Limited. Considerable progress has been made in renegotiating sales contracts which were concluded at a time when prices, in terms of current levels, were very low. This process is continuing.

Labour supply, particularly during the second half of the year was satisfactory and it was possible to maintain production at a high level. The eleven-shift fortnight, however, had an adverse effect on working costs as additional labour costs were incurred in order to maintain production.

It is expected that supply of Black Labour will remain satisfactory in the immediate future. Considerable attention is being given to the training and stability of labour.

The present level of the gold price is encouraging and eases the problems of marginal mines.

A prospecting trench was excavated in the Langer Heinrich uranium deposit located near Swakopmund in South West Africa. The purpose of this trench is to provide further geological information on the nature and type of the deposit and to provide for a pilot plant which has been established at the Group Laboratories at Krugersdorp to determine the optimum design parameters for a future recovery plant. Related marketing and financing investigations were also continued.

The Group's coal mining activities continued to expand, with sales from the Group's collieries increasing by 7 per cent over the previous year's performance to reach 27.8 million tons during the 1977 calendar year.

To provide replacement coalfields and sustain the desired rate of growth, regional prospecting of potential new coal areas, as well as detailed geological investigations of the coal reserves in the Highveld, continued unabated during the past year. An interesting discovery in the Northern Transvaal includes a coalfield containing a metallurgical low ash fraction and a power station middlings fraction.

Varying conditions in the markets for the minerals and metals produced by

the Group were experienced during the year. The asbestos market which had shown strong growth trends became static towards the end of 1977. The markets for other minerals and metals were affected by the continued unfavourable economic conditions particularly in the case of products related to the steel industry. In general, however, the Group was able to maintain a satisfactory position.

The activities of the Group's industrial subsidiaries cover a wide field and are, therefore, affected by a variety of factors. In general, it has been found that the economic recession has placed the profit margins of all the companies under considerable pressure. The steel industry in particular was adversely affected in the export markets where the expected recovery of the national economies of the Group's important trading partners has not yet occurred.

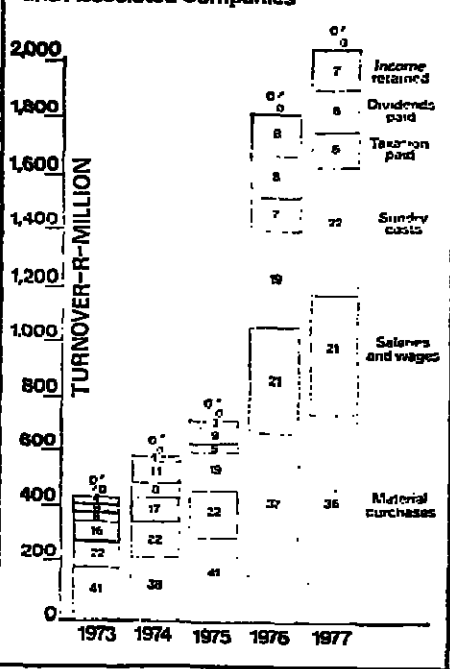
PROSPECTS

The results for 1977 were better than could have been foreseen at this time last year. This was mainly due to a higher performance by industrial subsidiaries than was expected and a more stable and higher gold price.

As far as the gold mines are concerned, the trend of the gold price is, of course, the most important factor. In this connection, the foreseeable level of the gold price will depend largely on the extent of confidence in currencies and the international monetary system. The price could also be influenced by the decisions of the American government on programmes of sales of gold from their reserves. The indications of greater stability in the gold market referred to last year, materialised and it is particularly pleasing that the industrial demand for gold showed signs of permanent growth. The marketing by the industry of Kruger rands was also continued with particular success, and during the past few months approximately 30 per cent of the industry's total production was marketed in this manner. The gold price in the traditional markets remains to some extent sensitive to reduced supply. The gold mining industry must, therefore, actively pursue its attempts to create new demand for gold through the continuation of the promotion campaigns which have been successfully carried out in the past.

The increases in production costs in the gold mining industry continue to be

Application of turnover of General Mining, Union Corporation Group and Associated Companies



a matter of serious concern. During the past number of years increases, particularly in price-controlled costs such as electric power, railage and steel have caused unit production costs to escalate above the rate of inflation. In addition, wages in the industry have also risen much faster than productivity. In fact, productivity has shown a decrease in recent times. All these factors constitute a danger to the industry and it is necessary that the utmost discipline be exercised in this regard in order to retain the vitality of the industry.

The possible effect on the gold mining industry of a continued high rate of growth in production costs needs to be thoroughly considered by the State and all concerned. This includes all the resultant effects of a possible reduction in the number of mines which will be able to produce gold profitably in the future. Possible unemployment resulting from the closure of mines and the decrease in foreign exchange earnings are particularly important.

During the year a decision was taken to establish a uranium plant, referred to last year, which will produce uranium from the accumulated slimes of the Buffelsfontein and Sulfonfontein gold mines. Satisfactory financing and marketing arrangements in this regard have been completed.

The Group's coal mining production is expected to remain static during 1978 except for Malta Colliery which will start producing on a small scale to build up the stockpile for Malta power station which comes on stream in April 1979. Ermelo Mines will expand its full commitment of 3 million tons per annum of export steam coal during 1979.

The substantial reserves of Trans-Natal and Union Corporation place the Group in a sound position to meet the expected marketing opportunities in the domestic, power station and metallurgical markets, as well as in the export markets for which the further expansion of the Richards Bay Coal Terminal facility is a prerequisite.

Exploration and evaluation of the new metallurgical coal field as well as the new bituminous coal field in the Northern Transvaal is continuing. Portions of the bituminous coal fields are uranium-bearing but the economic viability of this occurrence has yet to be established.

The world demand for other metals and minerals remains weak. A delayed weakening in the demand for asbestos also occurred as a result of the world-wide recession although an improvement in the medium term is expected. The demand for chrome ore is weaker and income from this source in the current year is expected to be lower. There continues to be much world-wide surplus capacity in the ferro-alloy industry, with low demand. This of course creates problems in respect of the new plant at Tubatse Ferrochrome where two of the three furnaces are now in operation. Technically, the plant is operating extremely satisfactorily but the financial results are unsatisfactory owing to the low level of turnover and, in particular, the fact that power costs at this plant are now R3 million per annum higher than expected when it was decided in 1974 to erect the plant.

Owing to the continued restriction of State expenditure and the low level of other capital expansion work, the prospects for a number of industrial subsidiaries remain unfavourable for the current year.

With a slightly better operating profit for General Mining itself, together with the expectation of a somewhat lower level of taxation in the Group as a whole, the results for 1978 should, however, once again be satisfactory.

W. J. DE VILLIERS, Chairman

2 May, 1978

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Some people advertise in America as though it's 1848, not 1978.

In those days, small bands of settlers set out across the vast continent in covered wagons. But the bulk of the young nation's business was in a few Eastern states.

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Some 90% or so of all Americans live west of the Hudson River. And American business is scattered from coast to coast. So when you advertise to American leadership, you'd better advertise where the leaders are to be found.

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May 1978

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مَكْزَا نِ الْأَصْل

INTERNATIONAL FINANCIAL AND COMPANY NEWS

MEDIUM TERM CREDITS

Montreal raising \$250m

BY FRANCIS GILES

THE COMMUNAUTE Urbaine de Montreal is raising \$250m on a spread of 2 per cent over the interbank rate for 10 years. Other terms include a three-year grace period. Part of the proceeds of this loan, which is being managed by Chase Manhattan, will help refinance, at much lower costs to the borrower, a \$200m seven-year loan raised last summer.

The borrower paid on that occasion a split spread of 1½ per cent for the first four years rising to 1½ per cent. The grace period on the new loan is also more generous—three years compared with 18 months last year. Italian borrowers are also active in the market. Two loans are currently being arranged while a third, a much larger one for the Italian State Railways is expected very soon.

Windsor, the state steel holding company, is raising \$55m for five years on a spread of 1½ per cent. Other terms include a three-year grace period. There is no guarantee of 100 per cent of the loan which is being arranged by Bank of Tokyo and Detroit and Banca Nazionale del Lavoro.

The other loan—for Finance Canada—is a two-tranche operation and is being arranged by BAIL. A \$15m tranche is for five years with a two-year grace period and carries a spread of 1½ per cent. The other tranche, \$35m, is for three years with the same grace period and a spread of 1 per cent. There is no guarantee.

The Commonwealth of Australia is raising £1300m for 10 years on a fixed rate of interest through a group of banks led by Amsterdam Rotterdam Bank.

Three-way Spanish bank deal

BY DAVID GARDNER

BARCELONA, May 31.

BANCO DE SANTANDER, one of Spain's "big seven" national banks, has bought a majority holding in Banca Jover, a Barcelona-based family bank, from the Barcelona-based industrial Bankunion, which holds approximately 55 per cent of the Jover equity.

The sale was confirmed at the Bankunion annual meeting yesterday for a reported price of eight times the nominal value of the shares, which Bankunion president, Sr. Jose Ferrer Bonassola, estimated at more than twice their real value. Bankunion is therefore likely to receive Ptas 8.5bn (\$4.7m) for its portion of the Jover equity.

The announcement ends a period of speculation, following the announcement that the sale of Jover was being negotiated through a foreign intermediary, which turns out to be Rothshilds. It is thought that Santander will be offering similar terms to the holders of Jover's 45 per cent minority, or an exchange for Jover shares.

The final price will therefore be around Ptas 6bn (\$3.2m).

The mechanics of the purchase—an approach through an intermediary empowered to make a single, but substantial offer—cuts out any rival bids from other, particularly Catalan banks.

Banca Jover is a small commercial bank with Ptas 12bn in deposits and some 20 branches, located almost exclusively in Catalonia. Santander has thus extended its national coverage, while increasing its presence in Catalonia, Spain's most important industrial area, and traditionally the region which generates the highest level of savings.

Bankunion is left with the

securities. It is thought that Banco de Gredos as its main commercial arm. Gredos was severely hit by the collapse of the Banco de Navarra/MPI group at the beginning of the year, prior to its takeover by Bankunion. Inver the company which owned 53 per cent of Gredos, also has a 13 per cent stake in Bankunion.

At the time of the Gredos purchase, Bankunion increased its stake in Jover. It also extended its capital increase earlier this year to Jover. Bankunion itself expects to make good its lost coverage by opening up ten new branches this year, three of which are already in operation. The bonus from the sale of Jover, will permit faster expansion. Sr. Ferrer said yesterday. It finished last year with profits of Ptas 926m (\$1.2m), 2.7 per cent up on 1976, total deposits up by 14.2 per cent to Ptas 55bn, and capital and reserves up by 5.9 per cent to Ptas 8.7bn.

VDO acquires Saphir watches

BY JOHN WICKS

ZURICH, May 31.

THE German company VDO Adolf Schindling AG, which recently acquired IWC International Watch Company, of Schaffhausen, has obtained control of another well-known Swiss watch concern, VDO is also completing a rights issue, working through its Zurich subsidiary, Mistek AG, the VDO group has taken over half the capital of the Geneva-based holding company Saphir SA.

The company owns the high-price-bracket brands Favre-Leuba, LeCoultre and Jaeger-LeCoultre, with production units in Geneva and Le Sentier. It recorded a small profit last year, after a loss of SwFr 5.6m in the 1976 period. A capital restructuring was carried out to improve its financial situation.

A number of shareholders are

now said to have sold their Saphir stock to VDO.

Meanwhile, Sika Finanz AG has acquired 39 per cent of Sika Chemical Corporation, of New Jersey, from the Dow Chemical Group. The Swiss company thus becomes sole shareholder in Sika Chemical, which is currently expanding capacities for concrete additives in Los Angeles, Dallas and Illinois.

Cartier to go public in New York

By David White

PARIS, May 31.

THE DIVIDED Cartier Jewellery empire is to be brought together again into one group and plans to launch its shares for the first time to the public.

In Paris, where the concern began in 1847, Cartier said the separately-run operations in New York, Paris and London would be regrouped under a single holding company. It is envisaged that the new joint company will apply for quotations of its shares, probably in New York.

Cartier began drifting apart at the beginning of the century, when it had already established itself as one of the leading jewellers in Europe, and sister companies were set up in New York and London.

The structure that the trio of Cartier brothers left behind is a complex one. Cartier is basically broken up into three divisions: the retailing and distribution network of Cartier Inc. in the U.S.; the Luxembourg-based European operations, including Paris, London and Geneva; and the manufacture of pens and cigarette lighters.

Sales from the different branches last year are put at just under \$100m. Of this the European group accounted for rather more than half, with the remainder divided roughly equally between the U.S. group and the pen and lighter operation. Net profit last year, on a consolidated basis, is estimated at \$7m.

Various alternatives are now being studied for the site of the holding company and the launching of Cartier shares, but New York is considered the most likely, being the most active market.

An initial introduction is thought likely on the American Stock Exchange and possibly later on the New York Stock Exchange.

VFW-Fokker: no mass redundancy

BY ADRIAN DICKS

VFW-FOKKER, the troubled West German-Dutch aerospace group, had not "come to the end of its existence" because of the cancellation of the VFW-Fokker short-haul jet airliner programme, the outgoing executive chairman, Mr. Gerrit Klapwijk, said here today.

Although he stressed that the company remains committed to the West German Government's proposal for a merger with Messerschmitt-Boelkow-Blohm, Mr. Klapwijk said that work in prospect had increased, so that there was now no immediate danger of mass lay-offs. This breathing space, it can be assumed, will be used by the VFW-FOKKER side to attempt to secure more favourable merger terms than those reliably

understood to have been offered by MBB up to now.

Talks with MBB are still continuing, but the VFW-Fokker chairman offered no indication of when the experts there to be concluded. He said that they had centred around the West German interests of the group, but also stressed that the Netherlands Government had given the Dutch shareholders and the management a free hand—a move that appears to leave the way open for the considerable degree of cross-frontier integration achieved by VFW-FOKKER to remain in effect. The management has been arguing for some time to both the German and Dutch Governments that much would be lost if a politically-imposed solution were to attempt to unscramble the group.

Herr Johann Schaeffer, the

deputy chairman of the central operating company, said that the VFW 614 programme had cost the company some DM 200m (\$100m) and the West German Government as much as DM 800m (\$400m) before VFW-Fokker closed it down last December. In the form of development subsidies, loan guarantees and production aid.

In keeping with its undertakings to Bonn last December, when the government provided a DM 540m assistance package, VFW-Fokker has drawn down DM 150m from its reserves to wards a DM 157m operating loss suffered on its 1977 activities. This virtually exhausts the reserves of the operating company.

For 1978, Mr. Klapwijk said, the group hopes to balance its books, and should be able to

DUSSELDORF, May 31.

earn a small profit in 1979. Work in progress includes 25 per cent of the European Airbus—300 programme, with the prospect of increasing the labour force in North Germany the largely Dutch-built F-27 and F-28 airliners, the Dutch part of the F-16 fighter and subcontracting work on the MCA Tornado.

In addition, VFW-Fokker is expecting a go-ahead for the proposed Franco-Dutch Atlantic marine reconnaissance aircraft, with initial orders worth DM 200m, as well as further military work from the West German government as part of its pledge to spread the present balance more fairly. For this, Mr. Klapwijk said, VFW-Fokker was still effectively in competition with MB ABG the independent Dornier company.

Streamlined Varta sees recovery

BY GUY HAWTIN

FRANKFURT, May 31.

THE RADICALLY reorganised Varta group appears reasonably satisfied with progress since its reconstruction. The battery and plastics operations appear to be doing satisfactorily, while the pharmaceuticals operation got off to a "shining start". Only the electrical and air purification concern had a tough time.

Varta, a major industrial holding of the Quandt concern, previously operated as a group, but last year its three major components were hived off into independent companies in order to allow them to reach their full potential at their own pace.

While it is obviously too early to comment on whether the policy has proved a success, shareholders do not appear to have suffered in any way as a result of the arrangement.

Hans Graf von der Goltz, chief executive of the newly constituted Varta battery and plastic concern, said that for 1976 holders of 10 shares in the old Varta concern saw earnings of DM 70. Their 1977 stake in the newly constituted group brought them DM 69, plus, if

they paid West German income taxes, the tax rebate coupon allowing them to offset corporate tax paid at their dividends 21 per cent.

Although this puts the group on the way to a return to profitability, 1978 is also expected to produce a profit.

The turnover increase from the previous year's DM 1,150m to DM 1,200m (\$598m) in the first quarter of 1978, the concern saw sales remain unchanged from the comparable period of the previous year.

The turnover figure, however, had been depressed by currency fluctuations. Sales of its overseas subsidiaries rose by only 2 per cent in Deutsche mark terms, whereas, when accounted in their home currencies, their real growth was 15 per cent.

Altana, which operates in the pharmaceuticals and dietary products field, reported 1977 turnover up from DM 738.6m to DM 805.7m. There are signs that expansion will also be strong in 1978 and first quarter sales were up 7 per cent to DM 210m.

CEAG, which operates in the light and power technology and purification sectors and a fact that authority to increase prices was "insufficient and given too late."

DM 202.2m. However, things started well in the first four months of 1977 with turnover up 21 per cent.

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West Germans make CD offer

By Our Financial Staff

THE West German Government is making a tender offer in three- and four-year certificates of deposit, Kassenobligationen. The offer closes at noon tomorrow.

Dealers in Frankfurt were suggesting yesterday that the terms of the offer—a minimum rate of 5 per cent for the three-year paper and 3½ per cent for the four-year notes—were on the "right side" but that the sudden revival in local bond markets had created a relatively favourable background for the tenders.

The renewed strength of the Deutsche Mark at the expense of the dollar yesterday lifted domestic bond prices by up to a point at the long end and enabled the Bundesbank to reverse its recent policy and sell what was thought to be a substantial amount of stock. There are apparently signs of a renewed inflow of foreign funds into Germany, notably from Switzerland.

The last offer in Kassenobligationen (10 March) raised around DM 1.7bn for the Federal authorities.

Bayernverein for City

BY JONATHAN CARR

BONN, May 31.

WEST GERMANY'S fifth largest bank, Bayerische Vereinsbank, tomorrow opens a full branch office in London, part of its continuing expansion programme at home and abroad.

The London branch business will chiefly focus on German customers wanting to invest in Britain. But the bank will also be gaining greater access to a second major Euromarket centre, following its establishment of a subsidiary in Luxembourg in 1971. The bank has total assets of DM 37.3bn, nearly 400 branches and 10,000 staff.

Outlook now brighter at Perstorp

BY JOHN WALKER

STOCKHOLM, May 31.

PERSTORP, the Swedish chemicals group, is more optimistic at the end of the first nine months of its financial year (September 1977 to April 1978) than in earlier forecasts. Group sales amounted to SKr 773m compared with SKr 930m in the previous year.

Dutch insurer sees increase

By Our Financial Staff

HIGHER profits this year are forecast by Nationale-Nederlanden, the largest Dutch insurance group, whose profits at the after tax level rose by 15 per cent in 1977.

At the annual meeting yesterday, the company said first quarter 1978 revenue was 9 per cent higher and would have shown an increase of 12 per cent but for the adverse impact of the appreciation of the Guilder in foreign exchange markets.

Actual profits for the opening three months are not available. For the whole of this year the company expects the Dutch market to improve in the non-life sector. Outside the Netherlands an increase in non-life profits "seems unlikely."

Shutdown in Sardinia

RUMIANCA SPA, a chemical company linked to the SIR chemical group, said it intends to close down its Rumianca Sud petrochemical plant in Sardinia temporarily because of lack of raw materials, Reuters reports from Rome.

The plant normally obtains supplies from SIR's Porto Torres petrochemical plant in North Sardinia, but SIR's financial difficulties have caused this plant to reduce output, industry sources said.

The Rumianca plant is to close down progressively from next week and about 930 workers will be laid off, Rumianca said.

Olivetti sales rise

ING. C. OLIVETTI E C SPA chairman Bruno Visentini said the group sales in the first four months of 1978 rose by 11.4 per cent from 1977 levels to L372.3bn (\$450m). Reuters reports from Ivrea.

Parent company turnover rose 14.4 per cent to L142.7bn, he told shareholders.

Orders rose by 10.3 per cent while wide and 20.7 per cent in Italy, he added. He made no forecast for profits or for a possible resumption of dividend.

Deutsche Shell loss

DEUTSCHE SHELL AG, the Royal Dutch/Shell group, reports a loss of DM 34.5 (\$17m) for 1977 compared with a net profit of DM 240.4m in 1976, writes AP-DJ from Hamburg. Sales fell 2.1 per cent in 1977 to DM 12,240bn from DM 12,505bn. However the company expects to return to profitability in 1978.

The prime factor behind the better 1978 prognosis, is the expectation that the company will be able to reduce its oil sector losses to DM 11.1 ton from DM 19.30 a ton losses in 1977.

CIGA in the black

THE Compagnia Generale Grande Alberghi (CIGA) SPA posted net profits of L285m (\$340,000) for 1977 after three straight years of severe losses. AP-DJ reports from Milan.

CIGA had posted deficits of \$8.6m in 1974, L4.1bn in 1975 and L2.5bn in 1976.

The company, grouping Italy's most luxury hotels, reported its 1977 income amounted to L41bn up 36 per cent from the previous year.

WOOD & SONS (HOLDINGS) LIMITED

Earthenware Manufacturers

CONTINUED PROSPERITY

PROFIT BEFORE TAX UP	20%
SALES UP	16%

The company continues to maintain a strong market position for all its main products, and a healthy order book should ensure continued prosperity for shareholders in 1978.

In spite of fluctuations in the value of the £ making our prices less competitive, the value of export orders on our books is an all-time record.

H. FRANCIS WOOD, Chairman.

	1977	1976
Year ended 31 December		
Turnover	\$4,209,088	\$3,618,846
Profit after Tax	\$237,392	\$193,651
Earnings per 5p share	5.80p	4.71p
Dividend	20.96%	18.24%

PEERAGE OF BIRMINGHAM LTD

1977 Export Sales were up by 33.4% contributing to a profit increase of 35%.

Earnings per share are up from 5.93p to 7.99p.

Although the first half of 1978 has proved difficult, sales are now good and the increase in the capacity of the non-ferrous foundry now trading as Peerage Castings Ltd is being filled. A warehouse has been opened in Vichy France to improve sales in Europe. The results for the first half of 1978 may not show an improvement on 1977 but the year as a whole will show a satisfactory result and the long term future is faced with confidence.

	1977	1976
Sales	\$2,575,041	\$3,237,889
Trading Profit	331,765	409,889
Profit after Tax	263,391	195,370
Dividend per Ordinary Share	1.6175p	1.4603p
Dividend cover	4.04	4.06

FROM NOW ON BLUE CIRCLE IS THE ONLY NAME TO KNOW

For seventy-eight years we've traded as The Associated Portland Cement Manufacturers Limited and APCM is our familiar name in the City.

But for many of those years we've been identified by our famous Blue Circle symbol, and Blue Circle is what we've come to be called by customers and the public at home and overseas.

From now on it's the only name to know. On June 1st, The APCM Limited became known as Blue Circle Industries Limited. Under our former name we grew to be one of the largest cement

manufacturing organisations in the world, with turnover approaching £400 million, and with 12,000 employees in the UK alone.

Over 50% of our profits come from our manufacturing interests and investments overseas, and we also have a substantial export business selling to over 100 countries.

We are considered to be world leaders in cement technology and, with our new name, we expect many more years of successful growth both in this country and overseas.

Blue Circle Industries Limited



INTERNATIONAL FINANCIAL AND COMPANY NEWS

JAL restores payment in spite of lower profits

BY CHARLES SMITH, FAR EAST EDITOR

TOKYO, May 31.

JAPAN AIR LINES has written off the last of a ¥17bn (\$77m) loss incurred in 1977 and restored its dividend after a three-year suspension, the airline announced today.

The company also announced after tax profits of ¥8.14bn for the fiscal year ending last March—a slight fall from the ¥11bn profit registered in the previous fiscal year.

JAL says it had to face a "major increase" in uncontrollable costs in 1977 resulting, among other things, from a 100 per cent increase in landing and navigation charges on its domestic Japanese flights.

JAL's international cargo traffic also rose by 7.5 per cent, during the year but this appears to have been due solely to a rise in incoming freight (up 18 per cent). JAL gives no figures for

freight out of Japan but says the "high Yen" (the Yen revaluation) had a "detrimental effect" on this.

JAL's financial history over the past four years, as set out in today's report, starts with a massive ¥17.7bn loss in 1974 (when the airline was one of the biggest losers among all major international airlines).

The airline reacted by embarking on a rationalisation programme spread over a three-year period which was concluded, slightly ahead of schedule, when the final ¥5.5bn worth of accumulated losses were written off towards the end of last year.

The completion of the programme leaves JAL financially sound but with a backlog of aircraft purchases to be undertaken over the next few years. The airline is expected to buy some seven or eight wide-bodied aircraft per year from 1980 to around 1985 at an annual cost of about \$400m. Decisions have yet to be taken on how to finance these purchases.

JAL has no comment to make on the profit outlook for 1978-79 but the airline faces the major task of absorbing the high cost of operating through Narita airport (the new Tokyo international airport). The higher landing charges at Narita during cost JAL an extra \$100m during the coming year and will not initially be covered by revenue increases, since Narita flight frequencies are frozen at the same level as at the old Haneda international airport. JAL says it will have to "work hard" to cover the Narita costs but gives no indication of its precise strategy.

JAL plans to start a fortnightly service to Sao Paulo in June (its first service to Latin America). A service is also being introduced to Abu Dhabi and flights to Baghdad will begin later this year.

The company reported a net loss close to ¥5bn at the half-way stage.

THE Bank of Tokyo is asking the Finance Ministry to submit a Bill to parliament to double the amount of bonds it may issue, the bank said.

The bank is at present allowed to float bonds up to an amount of ¥1.34 trillion (million million), representing five times its capital plus reserves, but the

outstanding balance of bonds it has already issued is nearing the ceiling, the bank added.

The bank's bond issues have been rising in recent years because of the need to finance increases in medium and long term lending in yen both at home and abroad.

Earlier, the bank reported that its profits after tax for the half-year ended March 31 last slipped from ¥3.98bn to ¥3.05bn (\$39.8m).

The interim dividend is maintained at ¥2.50 a share, Reuter.

TOKAI BANK, the Japanese City bank, has announced an increase of 7.7 per cent in net profits in the half-year to March 31, to ¥8.3bn (\$83.7m), from ¥7.7bn in the same period a year earlier, reports AP-JD from Tokyo.

The bank forecasts that net profits will be maintained at the ¥8.3bn level in the current half-year.

Kawasaki Heavy Industry's (KHI) new ship orders declined by 27 per cent and order backlog was cut by 46 per cent from the previous year.

As a result, KHI expects a deficit for the first time in the current six months of the fiscal year ending September.

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Two more shipbuilders add to the gloom

By Yoko Shibata

TOKYO, May 31.

TWO MORE of Japan's major shipbuilders report serious profit setbacks. Following yesterday's disclosures of hefty downturns at Ishikawajima-Harima Heavy Industries (IHI), Hitachi Shipbuilding and Engineering and Mitsui Shipbuilding and Engineering, Mitsubishi Heavy Industries (MHI) and Kawasaki Heavy Industries announce reduced earnings for the fiscal year to last March.

The current worldwide glut of vessels, coupled with weakening international competitiveness caused by the surging yen value led to a tapering-off of new ship orders and order backlog held by all five shipbuilders. Sharp price-cutting competition in order-taking and declining operating rates (around 50 per cent of capacity) weakened profitability more than expected.

The largest heavy machinery manufacturer, Mitsubishi, whose shipbuilding accounted for 34.2 per cent of business, lifted current profits 28 per cent to ¥45.7bn but net profits fell 16.2 per cent to ¥15.5bn (\$67m) on sales of ¥1.28 trillion (million million) (\$8.2bn).

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Kawasaki Steel pays less after slide in earnings

BY OUR OWN CORRESPONDENT

TOKYO, May 31.

KAWASAKI STEEL, one of Japan's big five integrated steel producers, suffered a 90 per cent fall in profits for the half year ending March 1978, compared with the same period of the previous year.

Income before the inclusion of extraordinary items totalled ¥1.5bn (\$63m), down from ¥15.8bn in the six months ending March 1977. The 1978 profit figure includes securities sales without which Kawasaki would apparently have had to report a pre-tax loss.

Sales were down 11.1 per cent during the six months to ¥461.6bn from ¥519bn in the comparable period. Exports accounted for ¥158bn (34.2 per cent) against ¥148bn a year earlier. Net profits for the full year dropped by 12.2 per cent to ¥6.8bn (\$30.6m) on sales 5 per cent down to ¥935bn.

A breakdown of exports sales figures reveals, however, that Kawasaki's overseas earnings from engineering consultancy

services rose, while sales of actual steel declined. Service earnings amounted to ¥14.2bn in the six months to March 1978 compared with earnings of ¥13.6bn in the same six months of last year. Overseas know-how and consultancy sales are expected to represent a fast growing portion of Japanese steel company's export earnings during the next few years.

Kawasaki's crude steel production in the six months ending March was down 13.5 per cent as the company strove to reduce excess inventories. (For the full year, production was 8.7 per cent down at 12.2m tonnes on a year earlier.) Production cuts increased the ratio of overhead and fixed costs to operating revenue and thus worsened the company's financial position during the six-month period.

Reflecting these and other factors, Kawasaki decided to cut its dividend from the traditional ¥5 per share to ¥3. The dividend

was to relax but not to undermine the essential features of the Government's foreign investment policy.

The basic proposal is that companies which have an Australian public shareholding should be designed to remove some of the disadvantages that might exist for companies in which there was some local shareholding.

"There is a view that some companies in which there is a majority of overseas shareholding as well as a not insignificant local shareholding are disadvantaged under the existing foreign investment guidelines," Mr. Howard said.

The Government had developed some proposals which have been discussed with a representative group of companies and the matter was the subject of further consideration by the Government.

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Government puts limit on Tisco dividend

By K. K. Sharma

NEW DELHI, May 31.

INDIA'S largest privately-owned steel plant, Tata Iron and Steel Company (TISCO), has been ordered by the Government to limit its dividend to just 12 per cent. The directive follows a decision to raise steel prices by a hefty Rs7.75 (\$20.7) a tonne on average.

The decision to raise prices has been taken by the Cabinet following a study of the steel industry, the bulk of which is in the public sector.

The 2m tonne Tisco plant is run by Tata although a substantial part of its equity is owned by public financial institutions.

Tisco has been told that any additional profits must be used for modernisation of the plant. Tisco has placed a proposal before the Government for doubling its plant's capacity to 4m tonnes, but this is unlikely to be accepted since the present policy is that any additional steel-building capacity must be in the public sector.

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Japan Line loss near \$100m.

BY OUR FINANCIAL STAFF

JAPAN LINE, the financially troubled tanker operator, has announced a ¥21.41bn (\$96.4m) loss for the financial year to March 31, compared with a net profit of ¥772m in the previous year, and of ¥2.6bn in 1975-76.

The company, which has been hit by the slump in the world shipping market, and had debts of some ¥180bn at end-September last year, has in recent months reached agreement with lenders to postpone repayment of about ¥30bn (\$130m) in loans during the current fiscal year, which started on April 1.

The first year's plan to reconstruct Japan Line's finances is understood, as reported last week, to involve measures including the selling of assets and securities, and the reduction of operating expenses through payroll economies and negotiations with labour unions.

It was announced on May 22 that—as part of management changes associated with the plan to salvage the company's finances, Mr. Takeshi Kitagawa, vice-president of Toyo Soda Kogyo, and a former executive with the Industrial Bank of Japan—Japan Line's principal creditor—had been selected as president, in place of Mr. Hisashi Matsunaga, who was appointed chairman.

The company reported a net loss close to ¥5bn at the half-way stage.

THE Bank of Tokyo is asking the Finance Ministry to submit a Bill to parliament to double the amount of bonds it may issue, the bank said.

The bank is at present allowed to float bonds up to an amount of ¥1.34 trillion (million million), representing five times its capital plus reserves, but the

outstanding balance of bonds it has already issued is nearing the ceiling, the bank added.

The bank's bond issues have been rising in recent years because of the need to finance increases in medium and long term lending in yen both at home and abroad.

Earlier, the bank reported that its profits after tax for the half-year ended March 31 last slipped from ¥3.98bn to ¥3.05bn (\$39.8m).

The interim dividend is maintained at ¥2.50 a share, Reuter.

TOKAI BANK, the Japanese City bank, has announced an increase of 7.7 per cent in net profits in the half-year to March 31, to ¥8.3bn (\$

WALL STREET + OVERSEAS MARKETS

Early 7 rise despite adverse news

BY OUR WALL STREET CORRESPONDENT

SHRUGGING ASIDE a report that the dollar had risen to a double digit annual rate in April, Wall Street moved steadily forward in active early trading today.

The Dow Jones Industrial Average was 6.84 higher at \$104.04 at 1 p.m. while the NYSE All Common Index rose 32 cents to \$54.82, while volume declined by a near

Closing prices and market reports were not available for this edition.

Two-to-one ratio. Trading volume was up sharply to 118.50 shares from yesterday's 104.10 figure of 13.72m.

The U.S. Labour Department said the Consumer Price Index rose 0.9 per cent in April, a gain of 0.8 per cent in March, which put the increase for the last three months at a 10 per cent annual rate.

However, analysts said the pace of inflation was not as bad as statements by Administration

OTHER MARKETS

TOKYO—Stocks made a bright showing in active trading, helped by the lifting of 10 per cent cash requirements for margin trading on most shares.

Nikkei-Dow Jones average rose 31.28 to 3,489.77 and the Tokyo SE index added 2.87 to 409.94, while volume expanded to 330m shares.

Despite the yen strength against the dollar in Tokyo, export-oriented issues advanced, followed by Construction, Foods, Oils and Chemicals.

Hitachi moved ahead Y14.78, Y23.20, Toshiba Y3 to Y14.8, YDK Electronic Y20 to Y20.02, Pioneer Electronic Y20 to Y20.02, Matsushita Electric Y10 to Y28.0, and Toyota Motor Y16 to Y18.1, while Sekisui Prefab added Y17 to Y28.8.

GERMANY—Further widespread gains occurred following good institutional buying, lifting the Commerzbank index 5.4 more to 782.8.

Motor vehicles were particularly strong, Daimler advancing DM 6.50, BMW DM 4.50 and Volkswagen DM 3.30.

While the steel industry was under preliminary investigation of the machine industry will amount to anything.

THE AMERICAN SE MARKET Value Index improved 0.49 to 144.28, the noon calculation on volume of 1.68m shares (1.48m).

TUESDAY'S ACTIVE STOCKS

Stock	Change
Adelphi	10.00
Adelphi	10.00
Adelphi	10.00
Adelphi	10.00
Adelphi	10.00

INDICES

NEW YORK—DOW JONES

Index	Value	Change
Dow Jones	104.04	+6.84
NYSE All Common	54.82	+32
NYSE Volume	118.50	

STANDARD AND POORS

Index	Value	Change
S&P 500	144.28	+0.49
S&P 500 Volume	1.68m	

N.Y.S.E. ALL COMMON

Index	Value	Change
N.Y.S.E. All Common	54.82	+32

MONTREAL

Index	Value	Change
Montreal	104.04	+6.84

TORONTO

Index	Value	Change
Toronto	104.04	+6.84

JOHANNESBURG

Index	Value	Change
Johannesburg	104.04	+6.84

AMSTERDAM

Index	Value	Change
Amsterdam	104.04	+6.84

OVERSEAS SHARE INFORMATION

NEW YORK

Stock	Price	Change
Adelphi	10.00	
Adelphi	10.00	
Adelphi	10.00	
Adelphi	10.00	
Adelphi	10.00	

Dollar very weak

NEW YORK, May 31

The U.S. dollar continued to lose ground in foreign exchange markets yesterday, falling below \$1.90 against the Swiss franc and also falling quite sharply in the afternoon in terms of the Japanese yen, German D-mark and sterling.

Disappointment at the U.S. trade deficit announced last week and concern about the rate of inflation have put increasing pressure on the dollar, but it appears that this has not yet produced any intervention by central banks.

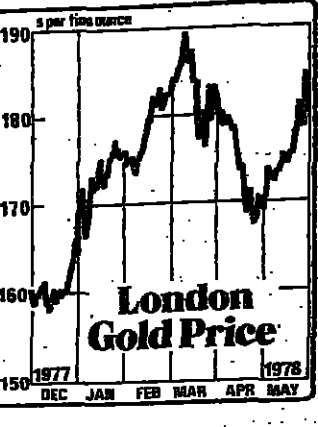
The dollar fell to \$1.885, before closing at \$1.883, and to \$2.211 against the yen, before closing at \$2.214. The firmest level recorded by the D-mark was \$1.925, and it finished at \$1.920, compared with \$1.921 on Tuesday.

The Swiss franc was unchanged at \$1.924 on Tuesday, and the Japanese yen finished at \$2.215 on that day.

The dollar's trade-weighted depreciation, as calculated by the U.S. Treasury, widened to 5.62 per cent from 5.11 per cent on Monday.

Sterling also benefited from the weakness of the dollar, rising to \$1.935, 1.835 at the close in London, a rise of 1.45 cents on the day. The pound opened at \$1.820, 1.820, and touched a low point of \$1.815, 1.815, before rising to \$1.835 level in the afternoon when the New York market opened, and continued to rise after the London market closed.

On the Bank of England figures, which were unchanged throughout at \$1.1, Gold remained firm, rising \$1.1 to \$1.943. The weakness of the dollar was probably behind the demand for the metal, which



London Gold Price

CURRENCY RATES

Currency	Rate
Swiss Franc	1.883
Japanese Yen	2.214
German D-mark	1.920

EXCHANGE CROSS-RATES

Currency	Rate
Swiss Franc	1.883
Japanese Yen	2.214
German D-mark	1.920

EURO-CURRENCY INTEREST RATES

Term	Rate
3 months	10.00
6 months	10.00
12 months	10.00

FORWARD RATES

Term	Rate
3 months	10.00
6 months	10.00
12 months	10.00

BRASIL

Stock	Price	Change
Adelphi	10.00	
Adelphi	10.00	
Adelphi	10.00	

OSLO

Stock	Price	Change
Adelphi	10.00	
Adelphi	10.00	
Adelphi	10.00	

JOHANNESBURG

Stock	Price	Change
Adelphi	10.00	
Adelphi	10.00	
Adelphi	10.00	

PARIS

Stock	Price	Change
Adelphi	10.00	
Adelphi	10.00	
Adelphi	10.00	

SWITZERLAND

Stock	Price	Change
Adelphi	10.00	
Adelphi	10.00	
Adelphi	10.00	

STOCKHOLM

Stock	Price	Change
Adelphi	10.00	
Adelphi	10.00	
Adelphi	10.00	

دولار من الاصل

Potato pest found in London

By Our Own Correspondent

A COLORADO beetle, the first sighted in Britain this year, was captured and killed in London at the weekend, the Ministry of Agriculture reported yesterday. The beetle was found in a load of fresh vegetables bought at St. Paul's Market, London. It was killed with a household insect spray in Hampstead. Ministry officials are trying to discover from which country the beetle came. The insect, which severely reduces potato yields, has been widespread in Britain and strict checks made on vegetable imports to prevent its re-introduction here. Last year the Dutch Government agreed to tighten its controls after a shipment of grain landed in Britain from Holland was found to be heavily infested with the beetle.

EEC lawsuit blocks weekly sugar tender

By Our Own Correspondent

A GERMAN complaint before the European Court of Justice has blocked the weekly tender for Common Market sugar support tender in Brussels yesterday. As a result no licences were issued for exports of white sugar. In recent weeks about 50,000 tonnes have been approved weekly by the sugar management committee. Hans Otto Wagner GmbH has complained that the method of translating export subsidies set in units of account into national currencies led to a reduction in subsidies paid to German sugar exporters. The court is said to have ruled that the regulations governing the weekly tenders need to be clarified.

U.S. futures chairman to retire

WASHINGTON, May 31

MR. WILLIAM T. BAGLEY, chairman of the Commodity Futures Trading Commission, will retire in three or four months, pending re-authorization of the Commission. Two bills now before Congress would renege his five-year tenure, and make the office of chairman subject to the discretion of the President. The legislation is expected to be passed with the CFTC re-authorization, and would probably be effective at the beginning of the 1979 fiscal year, October 1.

Surge on London coffee futures market continues

By RICHARD MOONEY

A COFFEE futures "squeeze" boosted values on the London market yesterday, lifting nearby prices above £2,000 a tonne at one stage. The May coffee position was traded at £2,030 a tonne during the morning before slipping to expire at £1,950 a tonne. The strength of May futures was carried into the July position, which climbed to £1,761 during the day and finished £24.5 up on balance at £1,743.5 a tonne. July coffee has advanced nearly £200 a tonne since the beginning of last week and stands at the highest level since late January. At the start of business yesterday there were 1,100 uncovered lots of five tonnes each for delivery against the expiring May contract, a figure one trader described as "extraordinarily high". Most of these lots were believed to be held by a single operator and the "bullish" effect on prices was enhanced by rumours that this operator was still buying May coffee during the day. With physical coffee commanding a premium of more than £100 over nearby futures dealers expected "long-holders" to delay their covering purchases. But most were surprised that the uncovered position had not been reduced to a more manageable level before yesterday. Concern about the Brazilian weather continued to be an important background factor though most professional traders

believed fears of a frost were "vastly overdone". This year's first frost scare came on May 10, much earlier than usual, and though it was dismissed out of hand by the trade it had a profound effect on some speculators. The result has been a very nervous market. This nervousness was aggravated on May 22 when light frosts were reported in southern Brazil. All feared worse before the coffee growing areas but market speculators nevertheless adopted an even more cautious attitude. The latest blow to confidence came last weekend when several cold fronts threatened southern Brazil. All feared worse before the coffee growing areas but market speculators nevertheless adopted an even more cautious attitude. The traditional high-risk Brazilian first period is not due until late July. Many traders believe a great deal is being made about nothing. But it is understandable that traders should be cautious as the Brazilian crop has already suffered a serious setback through a prolonged drought which cut this year's expected output by more than 2m bags (80 kilos each) to about 17m. A frost now, say some experts, could do untold damage to the drought-weakened trees, severely cutting next year's crop. The crop has already been picked and is now safe. Major damage to the Brazilian

crop could set the world coffee market on an upward spiral even greater than that following the notorious 1975 frost. 1975 then saw the Brazilian crop fall by more than three-quarters and forced world prices up by more than 1,000 per cent in the next two years. Brazilian production is still recovering from this setback and another comparable frost could do permanent damage to world coffee supplies. World stocks were seriously depleted after the 1975 frost so there is little coffee available to act as a buffer against any new shortage. On the other hand consumption has still not recovered from the unprecedented prices reached in the middle of last year and many dealers argue that current world prices are still far too high. They point to recent estimates that world coffee demand is still 300,000 per cent below pre-1975 levels as evidence that prices will have to fall considerably before the world coffee market can get back on an even keel. Reuters reports from San Jose that Costa Rica's 1977-78 coffee crop is estimated at 93,855 tonnes, according to Sr. Alvaro Jimenez, Coffee Office executive director. Sr. Jimenez expressed concern about the amount of Costa Rican coffee being smuggled out of the country, mainly to Panama, cutting next year's domestic and export prices. Last December the Coffee Office estimated 1976-77 coffee output at 1,120,000 60 kilo bags.

World food price pact sought

By LYNDON WATKINS

CANADA and three other major food exporting countries will discuss the creation of an international pricing agreement for key agricultural products. Mr. Eugene Whelan, Federal Agriculture Minister, told a food industry conference here he had a favourable response to the idea in preliminary contacts with the agriculture ministers of the U.S., Australia and the Argentine. They were interested in setting minimum world selling prices for grains, beef and dairy products. The matter would be discussed in detail when they met in Mexico City on June 12-14 for the World Food Council meeting sponsored by the U.N. Food and Agriculture Organisation. Mr. Whelan said it was not Canada's intention to exploit foreign consumers by subjecting

its exports of wheat, meat and dairy products to export price increases. "We are only interested in getting security and a decent profit for our products and to see that no-one benefits or sacrifices at another's expense. We are not looking for increases of 400 per cent or more, which would be subjecting the world to our whims. We are seeking a fairer deal than we are receiving at the present time." Similar attempts to get a producer national pricing agreement at an FAO meeting in the Philippines three or four years ago failed. World food prices were higher than in relative terms and there was little interest among the major food producers to regulate them. World recession has changed that. Mr. Whelan said the Argentine

was particularly interested in an agreement. Mr. Bob Bergland, the U.S. Agriculture Secretary, is in favour, although the U.S. Government had yet to take a policy stand. Mr. Whelan expected difficulty with U.S. acceptance because of its concern about a free market philosophy. He would not be drawn on the extent to which the prices of grain, beef and dairy would rise if minimum selling levels were introduced. But he said "fairer prices" been in effect last year, Canada's \$7bn primary agricultural industry would have benefited by another \$1bn. The proposed pricing agreement will almost certainly be among topics discussed when Mr. Whelan meets Mr. John Silkin, the British Agriculture Minister, in Ottawa this week during his visit to Canada.

Fear of cut in supply lifts copper

By John Edwards, Commodities Editor

FEARS OF cuts in copper deliveries from Peru and Zaire, pushed copper prices to new highs for the year on the London Metal Exchange yesterday. Cash wirebars closed £10.5 up at £78.5 a tonne and three months wirebar traded £204 before profit-taking trimmed the closing price to £78.75. Unconfirmed market rumours were that Zaire would declare a 70 per cent force majeure on its contracted shipments. Earlier it had been claimed that only slight damage had been caused to the Kolwezi mines. Meanwhile Reuters reported from New York that Minero Peru had cut the amount of copper cathodes available in June, although it might ship higher prices on the New York market. Three more U.S. copper producers - Phelps Dodge, Anaconda and Copper Range - announced increases in their domestic selling prices from 40 cents to 70 cents a pound. Other U.S. producers made similar increases last week. Anaconda said it was studying new pricing methods - a reference to the more by Kennecott to abandon the producer price system and base its prices on the New York copper market spot quotation. Silver and free market platinum prices rose to new peaks. The bullion market spot quotation for silver at the morning fixing was 4.55p higher at £298.75 an ounce. Values eased in the afternoon and the spot prices on the London Metal Exchange closed £1.35p up at £297.9p. Free market platinum rose by £1.4 to £138.9 an ounce.

SOVIET FUR TRADE Exports restrained to supply home market

By DAVID SATTER IN MOSCOW

THE GIANT bins of the Irkutsk fur stock house hold pelts from all over Siberia: the skins of foxes, mink, otters, wild dogs, muskrat, sable and squirrels. Irkutsk is the largest of the dozen fur sorting bases in the country which service the world's biggest fur exporting business. It is supplied by 5,000-odd hunters and scattered fur farms in the Siberian region. The sorting bases evaluate and classify the Soviet fur output. The Irkutsk base is unusual not only for the volume of furs it handles but because 70 per cent of the pelts processed there are "wild" furs delivered by hunters. They include such exotic furs as Siberian polecat, Lynx and the beautiful Kolyma fox. Wild furs are the basis of the Russian fur trade from the time of Ivan the Terrible to just after the Second World War, but they represent only about 20 per cent of total Soviet exports today and their volume share of both exports and production is expected to decrease. Still, wild furs are the types increasing most rapidly in value. Before the war the sale of furs abroad by the Soyuzpushkina fur trade organisation was an important source of hard currency for the Soviets and up to 90 per cent of exports consisted of furs caught by hunters. After the war, however, industrialisation in Siberia drew

people from isolated areas into the cities (while driving fur-bearing animals deeper into the forest) and few members of the younger generation chose to become hunters. The demand for furs did not abate, however, and to satisfy the export market and the vast internal Soviet demand, the fur industry was completely restructured. The answer to the decline of the hunter was the development of fur farming. The increase in breeding fur farms was dramatic. Between 1960 and 1975 the number of farmed mink skins, for example, increased from 250,000 to 10m. There are now 120 state fur farms in the Soviet Union and 200 co-operative farms. In 1976 80 per cent of Soviet fur output - 80m skins - was produced on breeding farms.

Although the price of Soviet furs generally has doubled in the past five years, prices have at least slipped for wild furs such as lynx, blue fox and white fox. One lynx skin recently brought a price at auction of \$1,900. Other Soviet wild furs for which prices are increasing include red fox, raccoon, white fish, black fish, wolverine, wolf, marmot and squirrel. The Soviets have no plans to increase the volume of their fur exports, which had held steady for a number of years. The value of fur exports last year was 100m roubles compared with \$2m roubles in 1971. Internal market could easily absorb double the current volume of production, but the desired increase in fur production is limited by a shortage of meat and fish for the farmed animals' diet. Almost everyone in a city like Irkutsk has some article of fur apparel and many fur items are made privately. Before the war 60 per cent of Soviet fur production was exported but in the years after the war the percentage of fur exports and particularly wild furs, will shrink steadily, making those wild furs the Soviet Union does export all the more prized.

Cocoa export quotas study

ABIDJAN, May 31

A special committee of the Cocoa Producers' Alliance is considering a system of stocks and export quotas to help boost world prices. The special committee is Provisional Ideas on export export quotas include Brazil 228,000 tonnes, Cameroon 100,000, Ivory Coast 320,000, Ecuador 70,000, Ghana 320,000, Nigeria 160,000 and Togo 15,000. The special committee is continuing its review of the 1975 World Cocoa Agreement, and hopes to suggest ways to overcome clauses which producers feel have a negative effect on prices. Reuter

Bigger world wheat crop forecast

ROME, May 31

WORLD WHEAT production this year is tentatively estimated by the Food and Agriculture Organisation at 405m tonnes, 5 per cent more than last year, but 1 per cent below trends in the past 17 years. An FAO report says larger wheat and coarse grain crops are forecast for all regions except North America, where plantings were reduced in the U.S. and in Latin America, where drought has affected the Brazilian maize crop. It expects world grain imports to rise 3 per cent in the 1977-78 season in 142m tonnes, with wheat imports reaching a record of 18m tonnes, 15 per cent more than last season. But in 1978-79 wheat imports could fall to 64m tonnes and

coarse grain imports to 71m. The fall in wheat imports would be due to a recovery in crops after setbacks last year in a number of areas, including the Soviet Union and China. Early prospects for wheat and coarse grain crops this year are mostly favourable, the report says, although widespread delays in spring sowing are causing concern. Production prospects could still deteriorate as the season advances, but the large carryover stocks should provide a buffer if this happens. Reuter

Chinese deal for Argentina Peking, May 31. Chinese Foreign Trade Minister. The sources said Argentina would sell wheat and maize for a combined total of between 500,000 and 1m tonnes each year from 1979 to 1981. China would also buy 25,000 tonnes of raw cotton a year during the same period. Reuter

COMMODITY MARKET REPORTS AND PRICES

BASE METALS									
COPPER									
Contract	Official	Unofficial	Contract	Official	Unofficial	Contract	Official	Unofficial	Contract
London	77.50	77.50	London	77.50	77.50	London	77.50	77.50	London
3 months	77.50	77.50	3 months	77.50	77.50	3 months	77.50	77.50	3 months
6 months	77.50	77.50	6 months	77.50	77.50	6 months	77.50	77.50	6 months
12 months	77.50	77.50	12 months	77.50	77.50	12 months	77.50	77.50	12 months
18 months	77.50	77.50	18 months	77.50	77.50	18 months	77.50	77.50	18 months
24 months	77.50	77.50	24 months	77.50	77.50	24 months	77.50	77.50	24 months
30 months	77.50	77.50	30 months	77.50	77.50	30 months	77.50	77.50	30 months
36 months	77.50	77.50	36 months	77.50	77.50	36 months	77.50	77.50	36 months
42 months	77.50	77.50	42 months	77.50	77.50	42 months	77.50	77.50	42 months
48 months	77.50	77.50	48 months	77.50	77.50	48 months	77.50	77.50	48 months
54 months	77.50	77.50	54 months	77.50	77.50	54 months	77.50	77.50	54 months
60 months	77.50	77.50	60 months	77.50	77.50	60 months	77.50	77.50	60 months
66 months	77.50	77.50	66 months	77.50	77.50	66 months	77.50	77.50	66 months
72 months	77.50	77.50	72 months	77.50	77.50	72 months	77.50	77.50	72 months
78 months	77.50	77.50	78 months	77.50	77.50	78 months	77.50	77.50	78 months
84 months	77.50	77.50	84 months	77.50	77.50	84 months	77.50	77.50	84 months
90 months	77.50	77.50	90 months	77.50	77.50	90 months	77.50	77.50	90 months
96 months	77.50	77.50	96 months	77.50	77.50	96 months	77.50	77.50	96 months
102 months	77.50	77.50	102 months	77.50	77.50	102 months	77.50	77.50	102 months
108 months	77.50	77.50	108 months	77.50	77.50	108 months	77.50	77.50	108 months
114 months	77.50	77.50	114 months	77.50	77.50	114 months	77.50	77.50	114 months
120 months	77.50	77.50	120 months	77.50	77.50	120 months	77.50	77.50	120 months
126 months	77.50	77.50	126 months	77.50	77.50	126 months	77.50	77.50	126 months
132 months	77.50	77.50	132 months	77.50	77.50	132 months	77.50	77.50	132 months
138 months	77.50	77.50	138 months	77.50	77.50	138 months	77.50	77.50	138 months
144 months	77.50	77.50	144 months	77.50	77.50	144 months	77.50	77.50	144 months
150 months	77.50	77.50	150 months	77.50	77.50	150 months	77.50	77.50	150 months
156 months	77.50	77.50	156 months	77.50	77.50	156 months	77.50	77.50	156 months
162 months	77.50	77.50	162 months	77.50	77.50	162 months	77.50	77.50	162 months
168 months	77.50	77.50	168 months	77.50	77.50	168 months	77.50	77.50	168 months
174 months	77.50	77.50	174 months	77.50	77.50	174 months	77.50	77.50	174 months
180 months	77.50	77.50	180 months	77.50	77.50	180 months	77.50	77.50	180 months
186 months	77.50	77.50	186 months	77.50	77.50	186 months	77.50	77.50	186 months
192 months	77.50	77.50	192 months	77.50	77.50	192 months	77.50	77.50	192 months
198 months	77.50	77.50	198 months	77.50	77.50	198 months	77.50	77.50	198 months
204 months	77.50	77.50	204 months	77.50	77.50	204 months	77.50	77.50	204 months
210 months	77.50	77.50	210 months	77.50	77.50	210 months	77.50	77.50	210 months
216 months	77.50	77.50	216 months	77.50	77.50	216 months	77.50	77.50	216 months
222 months	77.50	77.50	222 months	77.50	77.50	222 months	77.50	77.50	222 months
228 months	77.50	77.50	228 months	77.50	77.50	228 months	77.50	77.50	228 months
234 months	77.50	77.50	234 months	77.50	77.50	234 months	77.50	77.50	234 months
240 months	77.50	77.50	240 months	77.50	77.50	240 months	77.50	77.50	240 months
246 months	77.50	77.50	246 months	77.50	77.50	246 months	77.50	77.50	246 months
252 months	77.50	77.50	252 months	77.50	77.50	252 months	77.50	77.50	252 months
258 months	77.50	77.50	258 months	77.50	77.50	258 months	77.50	77.50	258 months
264 months	77.50	77.50	264 months	77.50	77.50	264 months	77.50	77.50	264 months
270 months	77.50	77.50	270 months	77.50	77.50	270 months	77.50	77.50	270 months
276 months	77.50	77.50	276 months	77.50	77.50	276 months	77.50	77.50	276 months
282 months	77.50	77.50	282 months	77.50	77.50	282 months	77.50	77.50	282 months
288 months	77.50	77.50	288 months	77.50	77.50	288 months	77.50	77.50	288 months
294 months	77.50	77.50	294 months	77.50	77.50	294 months	77.50	77.50	294 months
300 months	77.50	77.50	300 months	77.50	77.50	300 months	77.50	77.50	300 months
306 months	77.50	77.50	306 months	77.50	77.50	306 months	77.50	77.50	306 months
312 months	77.50	77.50	312 months	77.50	77.50	312 months	77.50	77.50	312 months
318 months	77.50	77.50	318 months	77.50	77.50	318 months	77.50	77.50	318 months
324 months	77.50	77.50	324 months	77.50	77.50	324 months	77.50	77.50	324 months
330 months	77.50	77.50	330 months	77.50	77.50	330 months	77.50	77.50	330 months
336 months	77.50	77.50	336 months	77.50	77.50	336 months	77.50	77.50	336 months
342 months	77.50	77.50	342 months	77.50	77.50	342 months	77.50	77.50	342 months
348 months	77.50	77.50	348 months	77.50	77.50	348 months	77.50	77.50	348 months
354 months	77.50	77.50	354 months	77.50	77.50	354 months	77.50	77.50	354 months
360 months	77.50	77.50	360 months	77.50	77.50	360 months	77.50	77.50	360 months
366 months	77.50	77.50	366 months	77.50	77.50	366 months	77.50	77.50	366 months
372 months	77.50	77.50	372 months	77.50	77.50	372 months	77.50	77.50	372 months
378 months	77.50	77.50	378 months	77.50	77.50	378 months	77.50	77.50	378 months
384 months	77.50	77.50	384 months	77.50	77.50	384 months	77.50	77.50	384 months
390 months	77.50	77.50	390 months	77.50	77.50	390 months	77.50	77.50	390 months
396 months	77.50	77.50	396 months	77.50	77.50	396 months	77.50	77.50	396 months
402 months	77.50	77.50	402 months	77.50	77.50	402 months	77.50	77.50	402 months
408 months	77.50	77.50	408 months	77.50	77.50	408 months	77.50	77.50	408 months
414 months	77.50	77.50	414 months	77.50	77.50	414 months	77.50	77.50	414 months
420 months	77.50	77.50	420 months	77.50	77.50	420 months	77.50	77.50	420 months
426 months	77.50	77.50	426 months	77.50	77.50	426 months	77.50	77.50	426 months
432 months	77.50	77.50	432 months	77.50	77.50	432 months	77.50	77.50	432 months
438 months	77.50	77.50	438 months	77.50	77.50	438 months	77.50	77.50	438 months
444 months	77.50	77.50	444 months	77.50	77.50	444 months	77.50	77.50	444 months
450 months	77.50	77.50	450 months	77.50	77.50	450 months	77.50	77.50	450 months

the price advanced 1/2 cent to 77.50. The afternoon reports of cutbacks in deliveries of Peruvian copper cathodes prompted some fresh buying. The price moved forward 1/2 cent to 77.50. The price then moved forward

STOCK EXCHANGE REPORT

Industrial leaders respond to modest buying interest

Share index up 6.3 at 478.8—Golds improve afresh

Account Dealing Dates

First Declared	Last Account
May 23	May 26
May 29	May 31
May 30	Jun 1
May 31	Jun 2
Jun 1	Jun 3
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Dec 11	Dec 14
Dec 1	

OFFSHORE AND OVERSEAS FUNDS

Ghoulartons	9
C. E. Coates	10
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■ Members of the Accounting Houses Committee.

- 2-day deposits 85, 1-month deposits 84.
- 7-day deposits 80, 3-month of £10,000 and over 82, up to £25,000 81% and over £25,000 82%.
- Call deposits over £1,000 8%.
- Demand deposits 81%.
- Rate also applies to Sterling Int. Securities.

[illegible]

	Fitzpatrick United Unit Mgrs. Ltd.		
	S7, Franklin Yard, EC4A 5DH	91-846	
	Capital Trk.	59.6	1
	Cash Flow	124.0	1
	Income Tax	154.2	2
	Pd. Int.	134.6	2
	D. Account	117.8	2
	Friends' Provident Unit Trs. Mgrs.V		
	Phoenix Road, Dartmouth	(6808) 58	
	Friends Prov. Unit	56.2	+6.3
	D. Account	54.6	+6.5
	G.T. Unit Managers Ltd.		
	18, Abbey Circus, ECGM 7TH	91-828	
	Capital Trk.	85.6	1
	Cash Flow	104.0	1
	C.F. U.S. Pd. Int.	124.6	2
	C.F. U.S. Pd. Inv.	127.7	2
	C.F. Japan & Gen.	284.6	4
	C.F. Gen. Pfd. S.	124.6	2
	C.F. Gen. Ydsd	117.8	2
		56.6	-1.1
	O. & A. Frost (Anglo)		
	5, Rayleigh Rd., Brent	(6872) 122	

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market for the smaller investor.

INVESTMENTS LIMITED
on EC3V 3LU. Tel.: 01-283 1101.
July, 1978 (Base 100 at 14.177)
Capital 157.97
Income 113.51

INDEX: Close 476-481

BASE RATES

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.....	9 1/8

..... and Property Bond Table.

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CONTRACTORS WHO CARE

Rush & Tompkins
Builders & Civil Engineers

FINANCIAL TIMES

Thursday June 1 1978



Carter gives pledge on Europe's defence

BY REGINALD DALE

PRESIDENT CARTER today gave a firm undertaking that the U.S. would use the full force of its military might, including strategic nuclear weapons, to defend Western Europe against an attack by the Warsaw Pact. His statement to the NATO summit here was regarded as the strongest reaffirmation of the American commitment to Europe yet made by the Carter Administration.

The coupling of American strategic forces to Europe was critical, for it meant that an attack on Europe would have the same consequences as an attack on the U.S., President Carter said.

Mr. James Callaghan, the British Prime Minister, told a news conference that while he had not doubted the U.S. commitment, he was very greatly reassured to hear it so clearly restated. Mr. Carter's pledge was in response to increasing anxiety in Western Europe at the growing power of Soviet nuclear delivery systems, such as the Backfire bomber and the SS-20 missile, which are targeted on Europe rather than the U.S.

In a speech to the summit, Herr Schmidt, the West German Chancellor, expressed growing concern about the increasing imbalance of such medium-range weapons in the field, particularly since it could not be corrected

WASHINGTON, May 31.

in the present round of strategic arms limitation negotiations—SALT II. President Carter spoke on the summit's second and final day as heads of government approved the strengthening and streamlining of the alliance's conventional and nuclear forces over the next 10 years and more, under the so-called Long Term Defence Programme. This programme was an impressive answer to the challenge facing the alliance, Mr. Carter said.

A survey of East-West relations approved by the summit forecasts that the Soviet Union will continue to give top priority to its military build-up despite growing economic problems. The study predicts that the Soviet Union will continue to increase defence spending by almost 5 per cent a year in real terms in the coming years despite a decline in its economic growth rate to little more than 3 per cent.

African views

The economic problems this causes may oblige Moscow to choose between repressive economic measures at home and seeking economic aid from the West. The West should be prepared to offer trade and credits but only at the price of a Soviet commitment to cut its military build-up and refrain from provocative activities in Europe and the

Third World, the study suggests. Mr. Callaghan warned Western governments against responding too hastily to Soviet and Cuban intervention in Africa. Before the West rushed in with instant solutions, it must be quite sure it had correctly analysed the problem and listened to the African viewpoint, he stressed. The Prime Minister appeared to be directing his remarks at governments like those of France and Belgium which would like to see the early creation of a pan-African peace-keeping force for Zaire. The UK is unenthusiastic about the idea.

Attempting to clarify the American position, Mr. Hodding Carter, the State Department spokesman, said the concept of stationing African forces in Zaire's Shaba province was worth considering.

The proposal will almost certainly be examined at the five-nation meeting on aid to Zaire in Paris next Monday called by the French.

Mr. Callaghan said that in the long term, Moscow's African ventures might not bear too much fruit. Whether the Soviet Union made medium-term gains depended on the intelligence of the West's response. However, he did not want African peoples to be subjected to a period of enforced Marxism if that could be avoided.

GKN concedes defeat in £55m bid for Sachs

BY STUART ALEXANDER

THE £55m bid by Guest Keen and Nettlefolds to raise its holding in Sachs, the West German components manufacturer, from just under 25 per cent, to 75 per cent, has failed.

The British engineering company's lawyers conceded defeat yesterday withdrawing an application to Count Otto Lambsdorff, German Economics Minister, asking him to reverse the decision of the West German Supreme Court which blocked the merger.

"Having considered the written judgment, we do not think it is worth pursuing the application any more," GKN said yesterday.

West Germany's Supreme Court had decided in February to uphold an appeal by the German Government against the merger because of the dominant position it would give GKN in the market for clutches and the overall financial power of the combined group. It also required GKN to show that it would be Germany's economic interest to permit the merger to take place.

The appeal to the Minister was lodged in March, but Sachs did not formally identify itself with it. No ruling was ever made by the Minister but

it is thought there was little chance of a reversal if GKN had gone ahead with the application.

GKN still holds 24.98 per cent of the Sachs shares, which it considers a profitable investment, but the company is looking for expansion opportunities, at home, in Continental Europe and in North America, and is thought to be less interested in investment shareholdings.

It is primarily concerned with strengthening its position as a trans-national components group with the resources to compete with American and Japanese manufacturers. The link with Sachs formed a major part of this strategy.

The German court ruling has raised doubts about the future of mergers between the major European component manufacturers.

GKN has high hopes of increasing its activities in the U.S. when a plant to make constant-velocity joints for front-wheel-drive cars begins production next year.

Although upset by the Sachs setback, Mr. Barrie Heath, GKN chairman, said recently: "We have quite a lot of other irons in the fire."

THE LEX COLUMN

Reed displays its scars

Index rose 6.3 to 478.8

The gilt-edged market was taking its cue from sterling yesterday, which rose by 1½ cents against the dollar and helped push prices of long dated stock £1 better. However, sterling was not alone. All of the major European currencies strengthened against the dollar and on a trade weighted basis sterling closed unchanged.

If anything, the background news for the gilt-edged market was looking a little bleaker. There is increasing talk of U.S. prime rates of 9½ per cent by the year end and yesterday's U.S. consumer price figures confirm that inflation across the Atlantic has been running at an annual rate of 10 per cent over the last three months.

Meanwhile the latest National Institute Economic Review is talking of 10 per cent inflation here in the UK, by the last quarter of 1978, which is a far cry from the Government's 7 per cent forecast.

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But there is still a very long way to go. Borrowings have fallen by a tenth over the year, yet loan capital still amounts to £377m of which a third is repayable in five years. This compares with tangible net worth of £183m, and last year's big write-offs raise further questions about the quality of the balance sheet. Disposals raised £40m over the year—but required write-downs of £19m. The share up in Canada, which still accounts for nearly a quarter of capital employed, required extraordinary provisions of £32m. And exchange losses amounted to no less than £30m. This figure would have been £3m lower but for the fact that the overseas subsidiaries account on a calendar year basis, yet the main explanation is that Reed has too many soft currency assets and hard currency liabilities.

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Brezhnev accuses West of Zaire propaganda

BY OUR FOREIGN STAFF

MR. LEONID BREZHNEV, the Soviet President, responded yesterday to Western criticism of Communist involvement in Africa and fears over the Warsaw Pact arms build-up by accusing the West of "cynical interference" in Zaire and of "trying to mar the process of détente".

He told a select audience of Czech party and state officials at a rally in Hradecany Castle, Prague, that NATO circles "are trying to avert attention from the cynical character of this intervention by masking it in a propaganda campaign about supposed Soviet and Cuban participation in these events."

Mr. Brezhnev—who looked tired and delivered his speech in a halting fashion—avoided criticism of the U.S. France and Belgium by name. But he attacked "political circles which are openly trying to mar the process of détente, not only in

Europe, and to return, if not the Cold War, then at least to a lukewarm war."

He also complained that Western leaders at the current NATO summit in Washington were "discussing plans for new warlike preparations for many years in advance" and contrasted this with Soviet plans for disarmament.

"There does not exist any type of weapon that the Soviet Union would not be willing to limit and ban on the basis of mutual and equal interests with other states," he said.

However, disarmament had to take place "without damaging the security of anybody and under conditions of complete mutual agreement between those states which own the arms."

Turning to internal politics, the 71-year-old Soviet leader told his Czech audience that they had stood with honour the difficult test after the 1968 intervention by Warsaw Pact troops.

He praised Mr. Gustav Husak, the Czech president and party chief, as "an outstanding son of the Czechoslovak people" and "a prominent personality of the world Communist movement."

Guarantees blamed for Meredew's fall

BY CHRISTINE MOIR

GUARANTEES to the tune of £13.7m for borrowings by other companies in the collapsed Bond Worth group were blamed yesterday for the failure of D. Meredew, the furniture-making subsidiary.

Unsecured creditors of the company, of Letchworth Garden City, Herts., were told at a liquidation meeting in London that they could expect not a penny of the £2.036m owed them.

The picture of the company's affairs outlined by Mr. Norman Sandler, the Official Receiver, reaffirmed earlier views that National Westminster Bank was unlikely to recover all the £15m borrowed by the group.

Mr. Anthony Charles Brown, Meredew's managing director, blamed the cross-guarantees for

his company's collapse. The amounts owed directly by Meredew, £219,000 to preferential creditors and £883,000 by way of an overdraft to National Westminster, had proved that Meredew itself remained commercially viable.

Now the cross-guarantees meant that the bank would take all Meredew's assets valued by the Official Receiver at £3,070m.

Bond Worth as a whole is said to have an assets deficiency of more than £25m, though sales of subsidiaries may reduce this level to a degree.

The century-old furniture-making business of Meredew, it was learnt, has been transferred to a new company, Meredew Furniture, when the Receiver, Peat Marwick, Mitchell has begun attempts to sell it

ACAS faces challenge on union recognition

BY ALAN PIKE, LABOUR CORRESPONDENT

THE EXTENT to which the industry simply by gaining majority support in one company.

One of the first cases to be affected by the decision will be another ACAS finding against the association in the water industry.

ACAS says in its report, published yesterday, that the maintenance of good industrial relations in the industry depends on continued successful working of the existing negotiating machinery and "it would appear inevitable" that this would be "damaged and possibly destroyed" if the association were recognised.

In a survey conducted by ACAS, 73 per cent of employees describing themselves as professional engineers said that the association should have a place in the negotiating machinery. In a wider survey of all 31,500 staff in water service, 55 per cent of the 52 per cent who replied opposed the association's claim.

These results led Mr. John Sampson, general secretary of the association, to say yesterday that ACAS had come to the conclusion that the wishes of a minority of the non-involved people should carry the day.

The outcome of next week's hearing is likely to have considerable implications for the handling of recognition claims. ACAS has taken the view that the opinion of employees directly involved is not the only factor to consider when making its recommendations. Both established unions and the Engineering Employers Federation have argued that an outside union should not win recognition in the

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In a survey conducted by ACAS, 73 per cent of employees describing themselves as professional engineers said that the association should have a place in the negotiating machinery. In a wider survey of all 31,500 staff in water service, 55 per cent of the 52 per cent who replied opposed the association's claim.

These results led Mr. John Sampson, general secretary of the association, to say yesterday that ACAS had come to the conclusion that the wishes of a minority of the non-involved people should carry the day.

The outcome of next week's hearing is likely to have considerable implications for the handling of recognition claims. ACAS has taken the view that the opinion of employees directly involved is not the only factor to consider when making its recommendations. Both established unions and the Engineering Employers Federation have argued that an outside union should not win recognition in the

industry simply by gaining majority support in one company.

One of the first cases to be affected by the decision will be another ACAS finding against the association in the water industry.

ACAS says in its report, published yesterday, that the maintenance of good industrial relations in the industry depends on continued successful working of the existing negotiating machinery and "it would appear inevitable" that this would be "damaged and possibly destroyed" if the association were recognised.

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Petrol likely to rise

been recently involved in price-cutting.

If competitors increased prices in highly competitive areas, Shell would almost certainly follow suit.

A general increase in petrol prices has been on the cards for several weeks. Several top industry executives have expressed concern about the effect of a continuing price war on company profitability